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ARED Newsletter

Agriculture and Rural Economy Division
Economic Research Service
U.S. Department of Agriculture

Spring/Summer 1989

Economic and Social Research for Rural America



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ARED Newsletter

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Cover photo: *A country road in Muhlenberg County, KY.*
Where is rural America headed? Members of ARED are working
for an optimistic response to that question.
Left: Location -- and time of day -- unknown.

How the Director's Office Works

by Dick Long

I am going to use this opportunity to give people in the division who don't usually work with the Office of the Director (OD) a little better idea of some of our routine work and some examples of the special activities we are involved in.



Dick Long

A major part of our time is taken up in management tasks. **Ken Deavers** meets once a week with the administrator, associate administrator, and other division directors to exchange information. At these meetings the administrator passes along guidance from the assistant secretary and the department.

Directors raise the problems called to their attention by people in their divisions and problems that need to be resolved at the agency level. Joint projects with other divisions are discussed. Special efforts on affirmative action, training, recruitment, and a variety of similar subjects are also planned. Initial agreement on research cutting across divisions, like the recent trade liberalization work, is made.

Agency management, coordination and planning activities are ongoing. Ken serves on the Information Resource Management Committee, for example, and part of **John Hession**'s time, in addition to his other duties, is spent providing Ken support in this work. A team-building exercise for the Senior Executive Service (SES) members was held in March. The 3-day agency planning session held near Baltimore, in late April, with all the agency's senior management present, was part of the same process. These tasks also include budgeting, preparing and reviewing progress reports, and work planning, both within the division and in conjunction with the others in the agency.

In these management tasks we try to: first, always keep the mission of the division in mind and not let management be an end in itself; second, establish and follow orderly, even-handed, and simple processes; and, third, protect so far as possible the time and concentration of the people who are doing the line work of ERS.

There are intradivisional counterparts to all the management activities. **David Harrington**, for example, coordinates the staff work project within the division, and between the division and Milton Erickson in the administrator's office. The branch chiefs coordinate the staff work and planning activities in their branches. They also meet periodically as a committee to review proposals and make recommendations for promotions

of researchers at the GS-12 and GM-13 grades, evaluate proposals for cooperative research agreements, and discuss priorities. One of my tasks is to convene these committees. **Sara Mazie** coordinates rural development situation and outlook work. A variety of questions and requests for assistance from people in the department and outside also come to the director's office. These include questions and answers for briefing books for confirmation, appropriation and oversight hearings. Most questions are referred to people in the branches, but except for technical questions, all are reviewed here and a few are answered directly by people in this office. We also try to make sure that the scope of the responses is appropriate to the occasion.

OD is responsible for guiding the division's overall program and keeping our mission and priorities in the minds of all the people in the division. It is also ultimately responsible for ensuring quality control. None of these things can be done by the director alone, nor by the people in his office. A sense of ARED's mission and devotion to quality work must permeate the division, with branch chiefs and sections heads accepting special responsibility. The planning process, recognition for outstanding work, periodic personnel evaluations, and manuscript clearances are formal means. But in reality, these tasks go on every day. Ken and I have interviewed more than a score of candidates for jobs in several branches so far this year and attended numerous staff seminars. We try to read and provide feedback on a considerable portion of the tens of thousands pages of written work the division produces every year.

Another way we try to convey our sense of the main themes of ARED's research program is in synthesizing pieces we write or deliver orally, or encourage others to write. Some examples are our recent rural development briefing for the congressional staff (repeated for our own staff) and the volume on rural development strategies I am now coordinating. Others are **Peggy Ross**'s rural poverty symposium, the update of the work on economic bases, and the expanded family farm report that **Sara Mazie** and **Tom Carlin** are coordinating. In a slightly different way, Ken's help to the Secretary General on the reorganization of the Organization for Economic Cooperation and Development's rural work is another means of communicating our concern with rural areas in economic geography.

Ken and others in OD also speak for ERS (as do most researchers, from time to time). Ken is a member of the board of the Ford-Aspen Rural Fellows Program at the Woodrow Wilson School and serves as an advisor to the Kellogg Foundation's rural program. So far this year, he has also worked with the TVA rural development program, the Southern Association of Agricultural Scientists, and the Agriculture Cooperative Association among other groups. **Dave Harrington** has been involved in Cost of Production advisory board work and a joint project with Agriculture Canada. As a followup on research that Ken and I did last year for the Governor of Tennessee's economic development plan, I gave a talk on the importance of recognizing economic geography to one of the Governor's planning groups.

We also like to keep our hand in research and writing. I am co-editing the proceedings of last fall's symposium on national

perceptions of rural areas in several developed countries, preparing the introduction to the strategies volume, and have agreed to write (with Ken) a background chapter on rural areas for a compendium study being edited by Mil Duncan at the University of New Hampshire. Ken has written or co-authored chapters on rural poverty in two books, and has agreed to write several other pieces.

ADMINISTRATOR'S AWARDS

The Administrator's Awards, which were bestowed April 20, are preempting the regular "Featured Research" section. "Featured Research" will reappear in the Fall, 1989 issue.

Excellence Awards

Financial Ratio Benchmarks Development

James Johnson, Elizabeth Nielsen, and Mitchell Morehart (FSFA), received an award in the Cross-Functional Studies area for their work on *Development and Use of Financial Ratios for the Evaluation of Farm Businesses*. Recent financial difficulties experienced by both farmers and agricultural lenders has generated concern within the profession about the lack of financial ratio benchmarks available to farm operators, lenders, policy makers, investors, and other participants in the agricultural sector. The historic unavailability of a national source of such financial standards has limited the scope of financial analyses to less than a complete set of tools and indicators and increased the potential for incorrect assessments about the viability of particular members of the farm sector. Recognizing this void, the Costs of Production Standards Review Board, agricultural lenders, and other agricultural finance analysts formally challenged ERS to provide the standards necessary for a complete evaluation of a farm's financial condition.

Financial ratios provide a convenient means to summarize information contained in standard financial statements and, as a result, provide insights about various elements of performance. They can serve a variety of individuals and agencies. For example, farm business operators use ratio standards to compare the performance of their operations to similar farms, which allows them to identify areas for change or improvement. Agricultural lenders require ratio standards for loan pricing, credit evaluation, and monitoring the performance of existing loans. Financial ratios also provide a foundation for a host of research issues, including: (1) identifying factors associated with successful farms, (2) determining characteristics that must be considered when comparing financial performance, and (3) comparing farm and nonfarm businesses' profitability, efficiency, and other performance measures.

In this work, a set of financial ratios examining solvency, liquidity and coverage, efficiency and profitability were developed and empirically evaluated using data from the 1986 Farm Costs and Returns Survey. Since the most appropriate ratios to use in financial analysis are not necessarily the same for all farms, several ratios were investigated for each element of



Mitchell Morehart, Elizabeth Nielsen, and James Johnson

financial performance. To give those concerned with farm finance a more complete perspective of performance, the quartile distribution of farms by ratio values was explored for all farm operators and by economic size, type of production, production region, tenure arrangement, and operator age.

This study is a first attempt at establishing national standards of comparison for farm financial performance. A rigorous statistical analysis of the relationships between alternative ratios is still needed, since: (1) adequately assessing financial performance requires analyzing a set of ratios representing each element, rather than simply studying individual ratios, and the choice of a ratio among several that can represent an element will affect the assessment, and (2) the relative importance of each element will differ depending on the set of ratios chosen for analysis and, obviously, the relative weight attached to a particular aspect of performance will affect the overall perception.

Special Merit Awards

Multi-Country Macroeconomic Model Creation

James Malley (NEH) was given an Outstanding Research award for his role in constructing the World Economic Modelling System with John Foster and David Bell as part of an ERS/Glasgow U. cooperative research agreement. The system will serve several purposes: analyzing the macroeconomic implications of U.S. trade and budget deficits on the U.S., world and agricultural economies; considering the effects of alternative monetary and fiscal policies and demographic and technological changes in a global context; and aiding the National Economy and History's Macroeconomics Section in its situation and outlook and staff activities.



James Malley

The model consists of six countries (U.S., U.K., Canada, W. Germany, Japan and Rest of World) with four traded commodities (fuels, manufactures, primary and services). It uses a small number of structural econometric equations and quasi-reduced forms to describe aggregate demand, supply, and balance of payments for each country. Structural equations describe consumption, investment, and commodity-import demand. Quasi-reduced forms describe interest rates, commodity export prices, and inflation. The model links trading blocks with a 1986 fixed-coefficient trade-shares matrix that is solved to determine export volumes. Import prices equal the weighted average of export prices adjusted by the exchange rate.

The linked simultaneous world model is solved on a PC using software specially designed by David Bell. The software was written in Turbo Pascal 4.0 and contains a number of innovative developments in the areas of model management, diagnostics, simulation and forecasting. The system can easily be used to run other models. The United Kingdom National Institute Model is currently being loaded into the software at the Macroeconomic Modelling Bureau, U. of Warwick, England.

The world model has recently been put through its paces for the ERS long-term baseline exercise. Forecasts to the year 2000 were developed and the results presented by Jim Malley and Ralph Monaco (NEH) at an ERS briefing. The ERS/Glasgow team has published two papers documenting the model structure and estimation strategy, and, this past autumn, delivered several seminars at both ERS and Glasgow U. Two more papers documenting the historical forecasting accuracy of the model and the model's multiplier responses to exogenous shocks are forthcoming. In July, Jim and David Bell will present a model-based paper at the U. of Warwick concerning international macroeconomic policy coordination. In August, Jim will present a paper about various model policy simulations at the 7th International Conference on Mathematical and Computer Modelling in Chicago.

LANS Installation and Use

Roger Strickland (FSFA) was given a Program Effectiveness and Improvement award for his leadership in the initiation, implementation, and administration of the agency's first Local

Area Network System (LANS). During 1988 under his leadership, the Farm Income Estimation Section (FIES), with assistance from personnel in three Data Services Center (DSC) branches, installed, debugged, and configured the system. Utilizing the system's capabilities, the section performed all the tasks associated with the publication of the National and State Financial Summary components of the *Economic Indicators of the Farm Sec-*



Roger Strickland

tor series. Among these tasks was the composition work normally done by the Information Division (ID), which included setting up numerous statistical tables according to ID's exacting standards. Yet the 1987 Financial Summary's were published in October and November, 1988 as opposed to December, 1987 and February, 1988 for the 1986 volumes.

These publications have a wide and varied clientele that waits impatiently for their contents. Because many estimates cannot be calculated until the results of the Farm Costs and Returns Survey for the year are available the following May, FIES supplies the Department of Commerce and State Statistical Offices with complete preliminary and final estimates in early June and early August respectively. The length of the publication process following the completion of the estimates then becomes a critical variable. Meeting the estimation deadlines and improving the publication dates by two and three months using the new computer system is a significant contribution to the knowledgeable assessment of the farm sector's financial condition by policymakers and analysts.

Immigration Law Implementation

Robert Coltrane (FRE) received a Special Achievement award for the crucial role he played in the department's fulfillment of its responsibilities under the Immigration Reform and Control Act of 1986 (IRCA). Working with senior policy officials in the Office of the Assistant Secretary for Economics, Office of the General Counsel, National Agricultural Statistics Service (NASS), and the Department of Labor, Robert participated in every major activity associated with identifying and carrying out actions required by the legislation.



Robert Coltrane

Shortly after the IRCA's passage, Robert analyzed the legislation and identified the tasks required of the department. He then compiled the

background information needed to construct regulations defining seasonal agricultural services and reviewed drafts of proposed regulations. In a number of capacities, he assisted in the development of survey and estimation procedures to gauge the need for seasonal agricultural workers. Among these was the coordination of efforts in ERS and NASS that was critical to meeting the mandated deadline. Robert also helped the Department of Labor prepare estimates of the supply of seasonal agricultural workers. Finally, the Secretary of Agriculture appointed him to the interdepartmental committee that designed the required employer reporting system on agricultural laborers who are not U.S. citizens.

When the Secretaries of Agriculture and Labor announce the first estimate of the shortage of seasonal agricultural workers this autumn, a large share of the credit for that number's generation will be due to Robert's input.

Working in ERS

Peggy Ross (HR) was a member of the ERS team given a Special Achievement award for their role in preparing the employee's guidebook, *Working in ERS: A Guide for Present and Prospective Employees of the Economic Research Service*. Peggy chaired the five-member committee who organized, designed, and developed the initial draft of the guidebook. The project originated within the Associate Division Directors Management Team, who helped early on in formulating objectives and proposing content for the guidebook. EMS information staff also contributed to the project.

The guidebook is designed to acquaint prospective and new employees with the mission, history, organization and structure of the agency. One major section tries to capture what a research position in ERS entails by describing the four major activities that ERS researchers engage in: research, situation and outlook analysis, staff analysis, and data management and collection. An important theme is that the ERS agenda is driven by current national issues and the needs of various clientele groups, particularly those in the policy arena. The rights and responsibilities of working in the



Peggy Ross

Civil Service are also covered. Because the guidebook answers many questions that prospective employees frequently ask, it is a valuable recruiting device that has been widely distributed at professional association meetings.

National Governors' Association Rural Development Team

Norman Reid, Herman Bluestone, Alexander Majchrowicz, Elliott Dubin, and James Miller (RBG) received a Special Achievement award for their work as the State Rural Policy Team for the National Governors' Association (NGA). Through its work with the NGA, the ARED team has provided the analytical and statistical foundation on which State governments can develop their capacity to respond effectively to the changing conditions in their rural areas. The NGA's major policy statement assessing rural policy and program strategies available to State governments that was presented at its annual meeting in August, 1988 relied heavily on the reports prepared by the ARED team.

During the early phase of the NGA rural development project, Norm Reid, leader of the ARED team, briefed the Staff Advisory Council on Rural Development on current rural economic conditions and the policy challenges facing the States in dealing with these conditions. NGA officials stated that these briefings played a large role in determining the direction the NGA project took. Under Norm's leadership, the ARED team prepared two background reports that had consid-



Herman Bluestone, Alexander Majchrowicz, Norman Reid, and Elliott Dubin (James Miller not shown)

erable impact on the content of the NGA's final report, *New Alliances for Rural America*, and have strongly influenced State governments' response to rural development issues. These background papers have themselves been widely disseminated and have proven helpful to other State officials and policymakers.

The State Rural Policy Team reports were:

"Federal Funds to Rural Areas: Fair Share? Right Mix?", by Norman Reid and Elliott Dubin, revealed that the majority of the funds flowing into rural areas were income support payments rather than funding for investment in human and physical capital. So, while rural areas received less Federal funding per capita than metro areas, the composition of those funds was also a critical variable affecting their potential role in future economic development.

"Economic Realities in Rural America: Recent Trends, Future Prospects", by Norman Reid, Herman Bluestone, Alexander Majchrowicz, Elliott Dubin, James Miller, and Celeste Long, described current rural economic conditions, analyzed the major factors underlying those conditions, and offered a prognosis for rural areas with various economic bases. Its most troubling conclusion was that, unless rural areas undergo substantial structural changes, rural job growth will likely be only 70 percent of the projected urban rate.

These reports broadened NGA's view from just the farm sector, which provides only 9 percent of rural employment, to the broad array of rural economic issues that required their attention. They also redirected the NGA's focus from a short-term, "jobs creation" perspective to a longer-term, economy-planning one. Their findings on the importance of funding mix helped turn the NGA from simply calling for more Federal dollars to a greater concern for the content of that funding.

Agricultural Income and Finance Situation and Outlook Development

Robert McElroy, Mary Ahearn, Gregory Hanson, Duane Hacklander, and Roger Strickland (FSFA) received



Mary Ahearn, Greg Hansen, Robert McElroy, Duane Hacklander, and Roger Strickland

an Outstanding Situation and Outlook Contribution award for their part in developing the new, quarterly *Agricultural Income and Finance Situation and Outlook* (*AIF S&O*). Because farm businesses and households have encountered near-unprecedented adjustments in their earnings, asset values, and financial distress and failure in this decade, farm financial management has risen to the top of the list of concerns expressed by farm sector producers, suppliers, financial lenders, and policymakers. While everyone in the farm sector has become vulnerable to financial distress and failure, however, not all face the same risks. Each part of the sector responds to a unique set of policy and economic stimuli, and so is interested in a unique set of financial issues.

The farm income forecasting team has been providing quarterly updates for *Agricultural Outlook*, but has not had an outlet for quarterly detailed analyses. In 1986, the Farm Sector Financial Analysis Branch began developing plans to expand the annual *Agricultural Finance Situation and Outlook* to a quarterly publication. In March, 1988, Bob McElroy was named coordinator of the new publication and the first issue came out in May, 1988.

The quarterly *AIF S&O* uses farm income and balance sheet data and analysis of their levels and movements to address farm sector financial issues. State and regional analyses, which are often more important than the national view alone, are now possible because of more statistically valid data from the Farm Costs and Returns Survey (FCRS). A core of topics, including receipts and expenses, Government payments, farm assets, debt, and equity, and tax and macroeconomic issues, is discussed and updated each quarter. Additionally, special articles analyzing particular topics provide ERS researchers an avenue for communicating their findings to the public.

Quarterly publication has made the *AIF S&O* more timely and given it greater breadth, both important factors because agricultural finance is a very diverse area and financial movements can affect the sector rapidly, necessitating quick responses. Each issue now has a unique focus. The February issue, which corresponds to the previous annual publication, is coordinated by the Finance and Tax Branch and primarily addresses matters of concern to lenders. The May issue updates

the Outlook Conference projections and expands them to the State and regional level, provides planting-time cost of production forecasts, and gives the financial community its first indication of land values. The first preliminary farm income estimates appear in the September issue. The December release publishes the outlook for the coming year for a much wider audience than those who attend the Outlook Conference.

Anyone researching matters of interest to the farm financial community is invited to submit results to Bob McElroy (786-1800). Special articles are always welcome.

OFFICE OF THE DIRECTOR

Publications

The article, "Poverty Highest In Rural Areas", in the February, 1989 issue of *Farmline* discussed results of research by Ken Deavers, and Calvin Beale, Peggy Ross, and Robert Hoppe (HR). The thrust of the article was that rural poverty is "a persistent problem that is largely passed over, unrecognized, by most Americans." Rural poverty rates have grown in the 1980's, reversing the trend of the late 1960's and early 1970's. Some successes have occurred in combating rural poverty, but "the nonmetro poor still face problems with no easy solutions."

Papers Presented and Meetings Attended

Dave Harrington and Steve Koenig (F&T), attended the Farm Financial Standards Task Force meeting in St. Louis, January 22-23. The American Bankers Association convened the task force to develop universal financial standards, financial reports, and information management for farm lenders and borrowers. The meeting was attended by financial representatives from industry, Government, universities, and farmer groups. The task force agreed on the principles and broad outlines of the effort, and three subcommittees corresponding to the areas being addressed were formed. Mitch Morehart (FSFA) represents ERS on the Universal Financial Criteria and Ratios Subcommittee, and Dave, Steve, and Jim Johnson (FSFA) are on the Universal Financial Reports Subcommittee. The task force plans to make formal recommendations for standards and reporting procedures by year's end.

Over 100 social scientists attended the Rural Data Needs Conference in Lexington, KY, March 29-31, organized by Jerry Skees and Jim Christenson of the U. of Kentucky. The meetings examined the ability of existing Government data information systems to provide insight into current and emerging issues for rural areas and people. Jim Bonnen and Glenn Nelson gave papers that addressed issues related to rural data needs and longitudinal data sets. Dave Harrington chaired a session on electronic data sources for Federal data. Jim Johnson (FSFA) chaired a session on improving the Federal data base. Tom Carlin (FRE) gave a talk on "Longitudinal Family Farm Surveys." Lyle Schertz (OA, retired) gave the wrap-up address. Other ERS employees attending included Gene Wunderlich and Bob Boxley (RTD), and Jim Horsefield (OA).

Ken Deavers presented an overview of economic conditions and returns to education in rural areas at the annual meeting of the American Education Research Association (AERA) in San Francisco, March 29.

Briefings and Miscellaneous

On March 1, at the request of Senator Patrick Leahy, Chairman of the Senate Committee on Agriculture, Nutrition and Forestry, **Dick Long**, David McGranahan (HR) and Norman Reid (RBG) briefed about 40 Congressional staff members from the agriculture committees in both houses and several other committees that sometimes consider rural development matters on *Rural Economic Development in the 1980's*. The report, which was issued in the fall of 1988, is a compendium of research on rural economic conditions written or co-authored by 18 ARED researchers and 8 other authors.

John Lee and **Kenneth Deavers** made introductory remarks at the briefing. **Dick Long** reviewed general rural conditions and discussed the sectoral make-up of the rural economy. David McGranahan compared employment opportunities in metropolitan and nonmetropolitan areas within the same industries, explaining that professional and managerial jobs are disproportionately found in the cities. He also noted that the pervasive metropolitan wage premium grows with the level of education required by the job. Norman Reid talked about the implications of the research and some of the logical components of strategies for rural development.

The Office of the Director has subsequently received many requests from Capitol Hill offices for additional copies of the book and handouts from the briefing. Because so many people in the division expressed interest in seeing the briefing, it was repeated in the ERS building, April 5.

The usefulness of ARED research on rural development with respect to Government activities was also indicated recently in a number of other instances. On April 5, Tom Rowley (RBG) attended the Senate Committee on Agriculture, Nutrition and Forestry hearing on Rural Development Issues. The hearing, the first in a series, focused on credit, distance learning and investment capital in nonmetro areas. The Committee Chairman, Senator Leahy, cited ERS studies several times in his description of the rural crisis.

Norm Reid and Ron Knutsen (Texas A&M U.) conducted workshops on rural development at the Congressional Staff Conference on "Fixing Farm Policy: A Tune-Up or an Overhaul?", held in Richmond, VA, March 31-April 1. The Congressional Research Service, the Farm Foundation, and Resources for the Future sponsored the conference.

Governor McWherter of Tennessee recently appointed a task force headed by Carroll Bourg of Fisk U. to study why the State's nonmetro retirement destination counties have not experienced the same growth rate as such counties nationally. **Ken Deavers** and **Dick Long** had recommended a study of this question in a short paper they prepared for the State Economic Development Commission. The Governor has also asked the Vanderbilt U. Institute for Public Policy Studies to conduct a

study of the Tennessee Job Training Partnership (JTPA) program. On April 6, **Dick Long** spoke at a session sponsored by the Institute in Nashville, on the use of local labor markets for the delivery of State rural development programs, including the JTPA.

Ken Deavers gave a short talk on "The Emerging Federal Rural Development Policy Environment" and was a discussant at an organized symposium on the topic at the annual meeting of the Southern Agricultural Economics Association held in Nashville, February 5-8.

Rural Development Perspectives

The following articles are included in the February, 1989 issue of *Rural Development Perspectives*.

"Should Rural Communities Fear Bank Deregulation?", by Daniel Milkove and Patrick Sullivan (F&T). Instead of draining money away from rural areas, bank deregulation may make more money available than before. Trouble is, the person making the loan may not be your hometown banker. With deregulation, rural banking services may become dominated by branches of city banks.

"Growth Falters in Most Rural Counties: Manufacturing Both Hero and Goat", by Herman Bluestone and Celeste Long (RBG). Only a third of nonmetro counties grew even moderately from 1969-84. Manufacturing was a leading source of that growth. However, in some other nonmetro counties, it was leading source of decline. Differences may have been due to different kinds of manufacturing and differences in the age of the facilities.

"Rural Poverty: Do Assets Matter?", by Donald Lerman and James Mikesell (F&T). Official poverty rates, bases on current income, exclude a family's accumulated assets. If those assets were included, the makeup of the rural poor would change: more young people, more renters, more unemployed, more members of large families, and fewer older people and homeowners.

"Farm Structure And Nearby Communities", by Thomas Carlin and Bernal Green (FRE). Rural development and farming are linked in ways one wouldn't ordinarily consider. Farming dominates the economy of large-farm counties where vagaries of farm income reverberate through the community. But, as communities' economies diversify and grow, community change will begin to affect the local farm sector.

"Rural Barriers to Job Creation Remain, Even in Today's Information Age", by Don Dillman, Donald Beck, and John Allen. New communications technologies offer the hope of finally eliminating the rural penalty of distance from population centers. With telecommunications, rural businesses can deliver some services as well as urban businesses can. In theory. In reality, rural areas often lack the infrastructure and trained personnel necessary for advanced telecommunications.

"Farmers and Their Search for Off-Farm Employment", by Timothy Parker and Leslie Whitener (HR). In trying to switch

careers or supplement their farm income, farmers may have a tough time finding off-farm jobs. And not just because they lack the right skills. Farmers tend to be older, have less schooling than other jobhunters, and live in areas offering fewer employment opportunities.

"Rural Indicators: Rural Areas Fall Further Behind in Jobs", by Alex Majchrowicz. Newly available data from the Bureau of Economic Analysis confirm previous impressions that the nonmetro economy continued to lag behind metro areas over the last several years.

Short Subjects include: "Affordable Wastewater Plant a Spinoff from Space Program"; "Strong Analysis Helps Shape Policy"; "Development Approaches That Work"; Raising Rural Education Levels by Working with High School Drop-outs..."; "...and Those Still in School"; "Delta Development Gets Boost"; "Views on Rural Intercity Transportation"; and "Police Blotter".

FARM SECTOR FINANCIAL ANALYSIS BRANCH

View from the Branch

by Jim Johnson

Winter quarter activities of FSFA staff have focused on improving data used to construct the volumes of the *Economic Indicators of the Farm Sector* series published by the branch and on expanding disaggregated information available for farm businesses and farm operator households.

Continued development and implementation of the Farm Costs and Returns Survey (FCRS) has been a primary function. At regional survey training schools in January, staff from each of the branch's four sections and the branch office instructed National Agricultural Statistics Service (NASS) State Office personnel on how data obtained through the survey are used in our research and estimates programs. Members of the branch and NASS headquarters staff created edit and data-analysis routines that will identify unusual data entries by comparing the response to a particular question with an established norm. Checks for logical consistency were developed so that potentially erroneous results could be "verified" by statisticians in State Offices prior to the survey ending. For example, FSFA and NASS produced farm operating income and expense statements and calculated gross ratios measuring the relationship between the components so that responses indicating both highly favorable and extremely poor performance could be verified. FSFA staff also spent up to two weeks providing survey edit assistance in eight State Offices. This work will not only help yield better results from the current survey, but will also provide a perspective about survey questions that worked well and those that need to be revised. Items that were new to the 1988 survey, such as contract production and marketing and farm household assets, liabilities, and annual consumption expenditures, received particular attention. Data obtained through these added questions will be extremely

useful in helping FSFA provide a more complete perspective about the distribution of net earnings among farm sector participants and the economic circumstances of farm operator households (e.g., earnings from farm and non-farm sources, consumption, assets, and liabilities).

The reliability of FCRS survey data is a question that we wrestle with continually since these data are used to develop the national estimates of net farm income and enterprise cost of production, and provide a perspective about the financial well-being of both farm businesses and farm-operator households. Several steps are taken to ensure the accuracy of FCRS data. The workshops and pretests mentioned above help ensure that proper questions are being asked and are properly stated. The comprehensive edit and data analyses programs that have been written highlight unusual responses. Finally, FSFA engages in research and staff activities to assess data comparability.

Work is currently ongoing to compare FCRS data with farm recordkeeping data (for farms of like size and type) in Illinois, Minnesota, North Dakota, and Kansas. This work will provide an idea about survey "coverage". To improve our questionnaires, we are asking how farmers keep their records. If certain types of record systems are prevalent, we may be able to streamline questions. Data from the 1987 FCRS indicated that eleven percent of farmers used a paid recordkeeping system, while three-fourths of farmers kept some sort of formal records themselves. This result confirmed prior year results where enumerators were asked to code whether farmers used records to respond to expense and finance questions. As expected, the percent keeping records increased with farm size. Hopefully, we can continue to work this information into our forthcoming survey design.

Planning for next year's FCRS is well ahead of earlier years. Survey versions will include the traditional detailed farm expenditure questionnaire plus questionnaires designed to provide data on dairy, wheat, burley tobacco, citrus, and onion enterprises, and farm operator investment diversion criteria. We have prepared draft questionnaires for most versions and have completed field tests of questions for enterprises new to the cost of production program (e.g., citrus and onions) and for dairy. Any areas where the respondent had difficulty in providing "good" data will be reworked for a second round of pretests this Summer.

Branch Activities and News

The December, 1988-January, 1989 issue of *Farmline* carried "Financial Survey Shows Farmers On an Upswing Before Drought" that focused on the picture of the farm sector's financial status drawn by the 1987 FCRS. Several branch members provided input for the article. Two special sections concentrated on the FCRS itself as an instrument for "taking agriculture's pulse" and how farm groups use the data collected in the FCRS to protect and promote farmers' interests.

Two papers presented at the Rural Data Needs Conference in Lexington, KY attended by Jim Johnson provided insights of immediate value to FSFA's administration of the FCRS.

The first paper, by Ed Carpenter (U. of Arizona) focused on conducting social science data collection and research using personal computers. Carpenter identified computer software with advantages for use in each stage of the research process. The second paper, by Don Dillman, considered how technology shapes data and influences questions.

The North Central Regional Research Committee focusing on determinants of size and structure of farm businesses (NC-181) has also expressed an interest in Federal data systems. At the Committee's February meeting, FSFA presented a paper highlighting firm level agricultural data collected and managed by the Federal government that FSFA prepared at the group's request. Two types of data are used in analyses of farm structure issues. The first includes data that reflect the outcomes of structural adjustments, while the second includes data that monitor on-going adjustments. Branch members reviewed Federal farm business data sets to assess their ability to provide each type of information. It is much easier to find data that fit into the first category and show, for example, how resources are organized and managed at a point in time than to obtain data that reflect temporal linkages or tie the farm household to the farm business. The paper will be published in the proceedings.

FSFA is continuing its work with Agriculture and Statistics Canada on building improved agricultural income, finance, and cost of production data systems. In February, NASS and ERS hosted four statisticians and five agricultural economists from Canada making a follow-up to our visit to their country last October. Considerable attention was focused on the statistical design of the FCRS and consequent implications for using data to undertake disaggregated analyses. Mary Ahearn, Dave Bunker, Dargan Glaze, Mike Salassi, Mitch Morehart, and Jim Johnson represented ERS.

The Branch also has its own Census benchmarking project underway. This project will focus on comparing 1987 and 1988 FCRS results with the *1987 Census of Agriculture* and the *1988 Agricultural Economic and Land Ownership Survey (AELOS)*, the financial followon survey to the 1987 Census. Duane Hacklander, head of the Farm Financial Analysis Section (FFAS), is chairing the committee. Section/Area representatives are: Jerry Warmann, Farm Income Estimation Section; Ken Erickson, FFAS; Andy Bernat, Economic Indicators Research and Forecasts Section (EIRFS); Mike Salassi, Costs of Production; and Dave Bunker, Branch Office and FCRS. Two key questions facing the group are how to relate estimates for the years between the 1982 and 1987 Censuses to the results of those censuses, and how estimates for the years following the 1987 and 1988 Censuses will be calculated using FCRS data as benchmark movers.

Farm Income Estimation Section

Research

On March 17, 1989, the preliminary monthly cash receipts report for 1988 was given to the Department of Commerce/Bureau of Economic Analysis (BEA)/Regional Analysis Branch. The March preliminary cash receipts report contained aggregated values for crop receipts, livestock

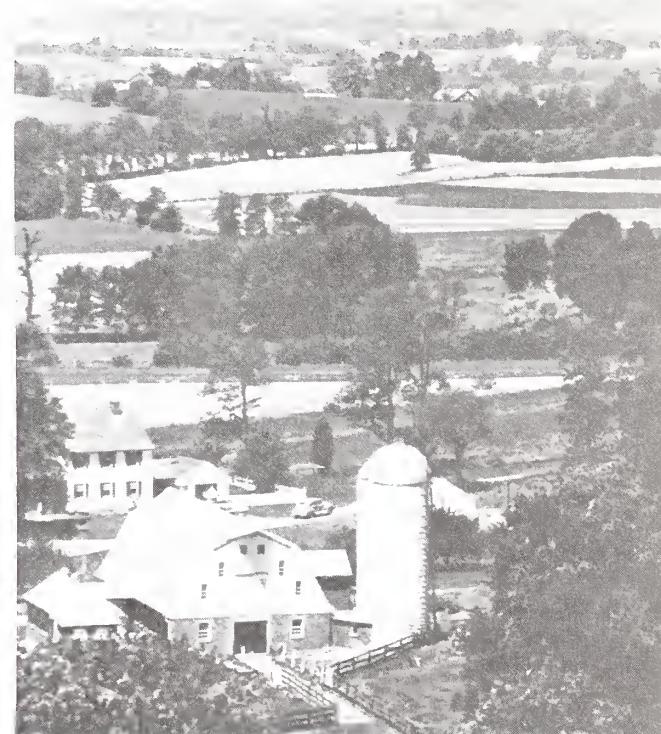
receipts, and total cash receipts for the U.S. and States. In addition, the report contained U.S. commodity cash receipt subtotals (meat animals, dairy products, food grains, feed crops, etc.)

Preliminary 1988 inventory changes were reported to BEA on March 31, 1989. The reported numbers included estimates of individual livestock and crop commodity inventory changes for the U.S. Estimates of the inventory change for aggregate livestock and crop subtotals, and State totals were also provided.

BEA uses the cash receipts and inventory data in their initial quarterly calculations of total industrial income (for the *April Survey of Current Business* report). Preliminary estimates of net farm income are used as a control for the total industrial income calculation.

Publications

Leading Commodity Cash Receipts, 1960-87 (Stat. Bull. 777), by Robert P. Williams, Constance F. Dixon, and Janusz Kubica (DSC), was published in March. The work organizes data on cash receipts for the 25 leading commodities by State to reflect production and sales of each commodity in each State. Rankings of the top 25 commodities were relatively stable from 1960 to 1987, with the 21st to 25th positions rotating among 10 commodities each year. Cattle and calves and dairy products were the two commodities with the highest cash receipts. California was the leader in cash receipts for all commodities each year between 1960 and 1987, with Iowa and Texas following closely. California and Texas should maintain their dominance of the rankings unless water for irrigation becomes



The FCRS collects data on farm operations such as the one shown here.

unavailable, which would likely shift cotton and corn production to the South and Midwest. (See *Cash Receipts* in *Data Scene* section for information on obtaining this data on disk.)

Papers Presented and Meetings Attended

As part of the branch's continuing, high-priority efforts to improve its knowledge of data uses and users, Roger Strickland and Jim Johnson attended a series of Data Users Meetings jointly sponsored by NASS, ERS, and the Agricultural Marketing Service in Orlando, Sacramento, Portland, East Lansing, and Syracuse, during the week of March 6. In these sessions, they discussed estimation and release procedures, answered questions about the *Economic Indicators of the Farm Sector* series, and tried to identify, from the perspective of data users, voids or new needs in that series. Particular emphasis was placed on fruits and specialty commodities because of the lack of published data on these items.

Briefings and Miscellaneous

Bob Williams was in Lincoln, NE the week of March 20 to assist NASS's State staff with the editing of the Farm Costs and Returns Survey forms.

Economic Indicators Research and Forecasts Section

Research

Robert Dubman is leading a project analyzing the financial performance of major types of crop and livestock farms in terms of sales, costs and financial stress. Reports on the performance of dairy, hogs, wheat and corn/soybean farms by region are scheduled to be released later this summer.

Publications

The Farm Sector Review, 1987 (ECIFS 7-4), edited by Diane Bertelsen, was released in April. In analyses of 20 areas of the farm economy, ERS staff who concentrate in each area describe the first year of broad economic recovery in the farm sector since the early 1980's. In 1987, farmers' net cash income rose 11 percent and net farm income was up 24 percent. Growth in farm income substantially exceeded the rate of inflation. Income from nonfarm sources remained important to many farm households, generating \$47 billion, up 5 percent from 1986. Total farm debt fell 8 percent and the value of farm assets increased for the first time in 5 years as farmland values stabilized or rose in most regions.

In *Alternate Measures of Farm Output to Classify Farms by Size* (TB-1749), Gregory Hanson and Mary Ahearn (FCRS), with Bernard Stanton, a Cornell University economist, examine six alternative concepts of farm size classification using data from the 1985 FCRS. Their results suggest that classifying a farm's size based on its value of production may be a more accurate indicator of farm output and size than the gross sales classifications currently used. Because sales class approaches do not account for changes in inventory and the

effects of unusual events and changes in producers' practices, farms with consistent levels of production and input use may fall into different sales classes in successive years. For example, if inventory is held back, an otherwise large-scale farm could be classified into a much smaller sales class. Value of production measures seem to minimize the distortions such factors introduce into the picture of the farm sector provided to policymakers and businesses servicing the sector.

Of those considered, the analysts believe that the concept which uses the value of production or production expenses, whichever is larger, plus direct Government payments is the most accurate. In general, the value of production approaches reduce the number of farms in the largest and smallest categories and add numbers to the midsized classes. These measures also suggest that the competitive position of midsized farms may be relatively stronger than previously inferred.

The authors are currently testing whether value of production procedures consistently yield results that are significantly different from those produced by sales-class procedures in FCRS data from 1984-88. They also intend to explore a value-added classification concept.

Papers Presented and Meetings Attended

Section staff have made a number of income and finance outlook presentations recently. During January, March, and April, Greg Hanson spoke at an Agricultural Round Table conference in Phoenix, a Farm Credit System Assistors Board retreat in West Virginia, and an ERS Outlook Conference in Memphis. Agricultural sales are showing considerable growth at this time and the economic fundamentals (such as a better balance between prices and costs) have firmed since the mid-1980's.

Andrew Bernat attended a FAPRI agricultural outlook conference in Kansas City in February. While there, he also presented research discussing a method of incorporating transfer payments into a regional input-output model at the Conference on Input-Output Modeling and Economic Development Applications sponsored by the North Central Rural Development Center, February 28-March 3.

The topic of transfer payments is timely because of their growing share of total personal income in the United States. In his presentation, Andy discussed the results of using his model to simulate the impact of changes in Social Security payments and public assistance payments on three small regions in Virginia. The model incorporates two characteristics of transfer payments that he views as critical: the distribution of transfers across households, and the connection of some transfers to income or employment status. Substantial differences in multipliers exist between a model with a disaggregated household sector and one without. If the portions of transfer income tied to regional activity are not made endogenous, impacts will be overestimated unless it is assumed that all newly employed workers are in-migrants and all newly unemployed workers leave the region. Andy acknowledges that his model has shortcomings in handling the second characteristic, but believes that it is a first step in an important direction.

Hossein Parandvash presented a seminar at Oregon State U. on the theory and application of the Nonnumeric Information Mixed Estimator (NIME) that he has developed. NIME is a new method of mitigating multicollinearity problems by incorporating into the estimation process nonnumeric information often available from theory, i.e., the expected signs of coefficients. In his presentation, Hossein also addressed results of Monte Carlo simulations and the application of NIME to several empirical data sets.

Farm Costs and Returns Section

Publications

1987 Farm Costs and Returns Survey Data: Selected State and Region Highlights (Staff Report AGES 89-1) is a collection of 33 reports highlighting 1987 data compiled from the annual Farm Costs and Returns Survey (FCRS). The State and regional level reports focus on financial characteristics of farms and farm operators. A farm's economic status is evaluated using the net cash income position and the ratio of debts to assets relationship. Regional production expenditures are compared by farm type. A brief discussion of farm characteristics by region is also presented.

Investments in Soil Conservation and Land Improvements: Factors Explaining Farmers' Decisions (AER-601), by Elizabeth Nielsen, Mitchell Morehart, and John Miranowski (RTD) shows that expected income and real interest rates are among economic factors that influence farmers' decisions to invest in land improvements, including soil conservation, drainage, and land clearing. Programs that remove land from production, higher farmland prices relative to land improvement costs, Government cost-sharing of conservation expenditures, and specific land characteristics (such as slope) also encourage investments in conservation and other improvements. This study is the first to use national data to examine the role of economic and related factors in explaining farmers' investments in conservation and other land improvement projects.

Using data from the 1986 Farm Costs and Returns Survey, *Farm Operating and Financial Characteristics, 1986* (Stat. Bull. 772), by Elizabeth Nielsen and Mitchell Morehart, provides information on U.S. farm conditions, including income, expenses, land use and values, labor use, and investment by farm size, production speciality, location, occupational specialty, legal organization, and operator age.

Papers Presented and Meetings Attended

FSFA/FCRS sponsored a conference on "The Costs of Producing Wheat in the U.S." in Kansas City, April 17-18, to discuss ERS estimates, including the first preliminary results of recent research on wheat costs of production, and ERS data-collection and estimation procedures. Individual farmers, representatives of producer groups, extension farm management, and economists and agronomists knowledgeable about wheat production costs from ERS, NASS, and land-grant universities attended the conference. Geographically, the participants were drawn from ten major wheat-producing States and

Canada. Mary Ahearn, who organized the conference, Jim Johnson, Mir Ali, Dargan Glaze, and Ken Mathews prepared sessions and materials that provided "nuts and bolts" information about ERS cost-of-production estimation methods, farm production practices, farm-level enterprise budgeting procedures being developed by ERS, cost of production distributions by farm-size and region, and the design of the 1990 wheat Costs of Production questionnaire. David Harrington (OD) was also present. The branch was particularly interested in eliciting comments on the 1990 survey. Because of their hands-on knowledge of production, the participants were able to provide useful comments on details such as winter pasturing of livestock that needed to be added to the enterprise questions.

The recent cost-of-production results presented in Kansas City are based on a farm-level model for estimating 1986 wheat enterprise costs developed by Dargan Glaze. Dargan presented some of the major findings for the U.S. on the distribution of costs, costs by size of wheat acreage, and cost levels for low- and high-cost producers. Approximately, 60 percent of wheat producers in 1986 had wheat production costs below the target price of \$4.38. Mir Ali described the differences in production practices which underlie the cost estimates by region of the country. Total cash expenses varied greatly among regions due to differences in input use, types of machines, and number and types of field operations. The Southwest had the highest cash expenses and the Southern Plains had the lowest. Harvesting the wheat for straw was a much more common practice in the Northeast region. Ken Mathews presented the results of costs per bushel by farm-size for five major wheat regions. Generally, producers with smaller wheat acreage had higher costs. The relationship between size of wheat acreage and economic costs was strongest in the Plains. Mary Ahearn described the farm and household characteristics of low- and high-cost farms. High-cost farms tend to be smaller and less specialized in wheat, own more livestock, and have an occupation other than farming as the operator's major occupation. However, the high-cost group of wheat producers in 1986 were a heterogeneous group, including large producers with low yields that year.

Briefings and Miscellaneous

Mary Ahearn has had two discussions comparing U.S. costs of production estimation procedures with other countries' methods. International comparisons of costs of production are fraught with measurement difficulties, particularly for "lumpy" inputs, such as capital, and the value of owned inputs, such as labor. Furthermore, an internationally accepted accounting procedure for costs of production does not exist.

Mary's first discussion was with Mashashi Jinbo and Masayuki Ishida from the Japanese Ministry of Agriculture. Mr. Jinbo is the Deputy Director and Mr. Ishida is a section chief in the Division of Economic Statistics. Her second discussion was with Pierre Gagnon of the Department of Agricultural Economics, U. of Laval, Quebec City, Quebec. A policy group within the department has responsibility for estimating the costs of producing milk in Quebec. Like the USDA program, their estimates are based on a survey of farmers. Of special interest, however, are the methods used to estimate

dairy's share of whole farm costs, such as machinery and economic costs of owned inputs, such as owned land. Mary also gave a seminar on the technical efficiency of wheat farms in the western States to the university's agricultural economics department.

FINANCE AND TAX BRANCH

View from the Branch

by Pat Sullivan

In last spring's issue of the *ARED Newsletter*, I commented on the slow pace of the New York Avenue reconstruction project, and at the sad state of my office after our latest interoffice shuffle. Well, one year later I have to admit that the construction workers have shown more progress in making the leap across 13th Street than I have at organizing my office. Even a casual trend analysis convinces me that I'll lose sight of my desk long before the backhoes and cement trucks start terrorizing the traffic on 12th Street.

But while many may think this apparent disregard for basic fire prevention reflects a deep-seated flaw, I'd prefer to leave you with the impression that the mountains of clutter inhabiting my office are directly related with the branch's activities. During the past several months, the branch has been heavily involved in several "long-term" staff analyses that are hopefully coming to their just and deserving end. With Brian Mulroney's reelection in Canada, the branch became involved in developing the methodology and data used for the credit subsidy calculations associated with the US-Canada Free Trade Agreement. At various times Doug Duncan, Greg Gajewski, Merritt Hughes, Steve Koenig, Jim Mikesell, and I have worked with Barbara Chattin (USTR), Ron Meekhof (EAS), Carol Goodloe, and Fred Nelson (ATAD) to estimate the subsidies involved in Federal and State farm credit programs. Over the same period, Steve and I, with substantial help from Dan Milkove, have worked closely with the Farmers Home Administration, building the analytical base needed to assess the impacts of the new secondary market for FmHA guarantees when it becomes operational later this year. In addition, Ron Durst has been working with Mike LeBlanc and Jim Hrubovcak (RTD), and representatives from the Forest Service and the Soil Conservation Service on the implications of changes in the capital gains tax on natural resource use and conservation.

The branch has also completed some long-awaited research. Somewhere, prominently displayed on my desk (or maybe on the windowsill, or the file cabinets, or ...) are several reports that have recently been published or are racing toward their meeting with the printer. *Prospects for a Secondary Market for Farm Mortgages* (AER-603), by Steven Koenig, Stephen Hiemstra, and David Freshwater (JEC) was published last December and is already in its second printing. The February issue of the *Agricultural Income and Finance Situation and*

Outlook Report (AFO-32) -- the issue reporting all of the really interesting ag finance trends -- was actually published in February, proving you can do wonders when everyone uses the same word processing package. In addition, the branch has several reports on financial deregulation, the Farm Credit System (FCS) "bailout," the savings and loan crisis, and rural bank operations scheduled for publication over the coming months.

Given the correlation (spurious though it may be) between the branch's activities and the depth of debris in my office, I'm not inclined to call in the bulldozers just yet. But should my lack of environmental concern begin to offend (like the winning pitcher who refuses to wash his lucky socks), please feel free to forward your complaints, care of Norm Reid (RBB).

Branch Activities and News

Pat Sullivan and Bill Herr (SIU-Carbondale) presented a coauthored paper on "FmHA Guaranteed Farm Loans: Who Makes Them and How Do They Affect Rural Credit Markets?" at the Southern Regional Science Association conference in Chapel Hill, NC on April 28. In their research, Pat and Bill examined over 8,000 privately-originated loans guaranteed by FmHA during FY-88 to determine the importance of various lender groups in making guaranteed loans. The paper discusses an analysis of the characteristics of participating commercial banks - the dominant lender - and explores the importance of bank behavior on the impact that Federally guaranteed loans have on local credit markets.

Pat Sullivan chaired a session on "Rural Capital Markets" at the Eastern Economic Association conference in Baltimore, on March 3. Participants included researchers from ERS, the Joint Economic Committee, the Federal Reserve Board, and the FDIC.

Gwen Coleman received a special service award for outstanding performance in providing secretarial support to the Finance and Tax Branch.

Agricultural Finance Section

Publications

The annual lender issue of *Agricultural Income and Finance Situation and Outlook* (AFO-32) was published in February. The 51-page report was coordinated by Jerry Stam with contributions by 8 other analysts from the Finance and Tax, Farm Sector Financial Analysis, and National Economy and History branches. The report includes analyses of general economic conditions, the farm sector, and ag lenders, plus three special articles. The special articles deal with farm lender acquired property in the 1980's, prospects for the Farmer Mac secondary market in 1989, and recent developments in Federal income taxation for farmers.

Greg Gajewski published his 1989 bank failure forecasts in "Bank Failures May Have Peaked" in the March issue of *Agricultural Outlook* (AO). For the article, Greg used his logit model to predict each bank's annual probability of failure. Between 94 and 136 banks are forecast to fail this year based

on the model's results, roughly a 45 percent decline from 1988. Agricultural bank failures are forecast to be in the 21 to 43 range, sharply down from 1987's peak of 75. Parts of the *AO* article were reprinted in the April 10 issue of the *American Banker*.

"Adapting to Turbulent Credit Markets: Loan Pricing Options for the Farm Credit System", by Merritt Hughes, was published in *Financing Agriculture in a Changing Environment: Proceedings of Regional Research Committee NC-161* (Agricultural Economics Report No. 243, North Dakota State U.). The paper examines, through use of a simple theoretical model, the extent to which the Farm Credit System is able to dampen unexpected shocks to net income through loan pricing strategies.

"Farm Credit Situation" by Steven Koenig and Jerry Stam was published in the December, 1988 issue of *Agricultural Outlook*. The article indicates that the farm loan portfolios of the major farm lenders continue to strengthen. Despite last summer's drought, lenders remain optimistic about future farm financial conditions and do not anticipate significant increases in farm financial stress resulting from the drought. Loan restructuring, write-offs, and delinquencies continue to decline for all lenders except the Farmers Home Administration. The pay-down of farm debt now appears to be stabilizing and lenders have ample loan funds available for creditworthy farmers.

"Lenders' Farmland Holdings Decline" by Jerry Stam, Greg Gajewski, and Steven Koenig was published in the March issue of *Agricultural Outlook*. The article shows that lender holdings peaked at 9 million acres at the end of 1987 but fell about a million acres during the first half of 1988. The holdings were valued at \$3.3 billion, down about \$500 million from the mid-1987 peak. Lenders acquired many properties through farmer bankruptcy, foreclosures, or deed in lieu of foreclosure during the farm financial crisis of the mid-1980's. The drop in lenders' property holdings reflects an improving farm economy and rising land values. Earlier fears that lenders would dump acquired farmland on already weak land markets now appear unfounded.

Papers Presented and Meetings Attended

At the Eastern Economic Association conference in Baltimore, March 3-5:



A bank near Owensboro, KY.

Merritt Hughes presented "General Equilibrium of a Regional Economy with Application to Credit Rationing". In her paper, Merritt develops a model which can be used to explore the interaction of real and financial variables in a single regional economy. Merritt also chaired a session on "Monetary Policy, Fiscal Policy, and Public Finance" and served as a discussant in a session on "Rural Capital Markets."

Steve Koenig and Pat Sullivan presented "Federally Guaranteed Loans: The Case of FmHA's Guaranteed Farmer Loan Programs".

In the paper, Steve and Pat review and analyze the Farmers Home Administration's recent policy shift from emphasizing direct lending to guaranteed lending in its Farmer Programs. Characteristics of guaranteed loans and participating borrowers and lenders are presented.

Under the auspices of the Finance and Tax Branch, Greg Gajewski chaired a session on the "Changing Nature of the Banking System" and presented his paper on "Assessing Systemic Risk With a Bank Failure Prediction Model". Using the results of his bank failure prediction model over the 1987-89 period, Greg examined the behavior of vulnerable banks. Tracking banks longitudinally shows how banks react to a high probability of failure. The longitudinal analysis suggests that some (but not all) banks with persistently high probabilities of

failure adopt a high-risk, potentially high-return strategy to recover lost equity.

Briefings and Miscellaneous

Jerry Stam was interviewed by and/or provided information to a number of news agencies over the last few months, including *The Economist*, *Forbes*, *USA Today*, *Dallas Times Herald*, *Orlando Sentinel*, *Des Moines Register*, *Arkansas Gazette*, *Farm Journal*, and *Farm Bureau News*. Topics included agricultural credit policies, farm debt, lender performance, farm bankruptcies and foreclosures, and lender-acquired property.

Bill Herr completed his 6-month sabbatical with the Agricultural Finance Section and returned briefly to Southern Illinois U. before proceeding on to the U. of New England in Australia for several months. While in Washington, Bill examined Federal loan guarantee programs. He gave an ERS seminar on his research on February 14, and expects to publish several articles and monographs on the topic over the coming year.

Mr. Ming-show Shyu, an assistant manager with the Land Bank of Taiwan, spent a week visiting the Agricultural Finance Section as part of an observational training program organized by the USDA Graduate School. Mr. Shyu studied recently completed research on FmHA, the FCS, and agricultural banks, and was briefed on the section's current work before proceeding to the Farm Credit Administration for a similar visit.

Rural Finance and Tax Section

Research

Ron Durst and Cliff Rossi submitted a paper entitled "Alternatives for Taxing Capital Gains: Effects on Farmland" to the American Agricultural Economics Association (AAEA) for presentation at the 1989 summer meetings. This paper compares effective tax rates for real capital gains under current law and various preferential tax alternatives. Results suggest that an exclusion for long-term capital gains performs poorly in compensating for the effect of inflation. Based on historical farmland values, an indexing alternative generally results in the lowest effective tax rate on real capital gains.

Stephen Hiemstra and Hyunok Lee (RTD) employed cross-sectional data from the Land Transfer Survey to analyze the structure of interest rates in the rural land market. Preliminary results show that statistically significant variation in interest rates existed between regions, lenders, ownership classes, and land uses during 1985 and 1986, particularly for fixed-rate mortgages. These results, although not controlling for explanatory factors such as loan quality, are consistent with the hypothesis that the Farmer Mac secondary market could have a significant impact on the allocation of credit in rural land markets. The authors prepared a paper summarizing their findings for possible presentation at this summer's AAEA conference.

Ronald Jeremias and Diane Bertelsen (FSFA) recently completed a report which examines "The Growing Gap Between USDA and IRS Farm Income." From 1983 to 1986, USDA's net (farm) business income averaged \$32 billion per year, but net farm profits on Federal tax returns averaged a negative \$11 billion per year. The report identifies differences in farm coverage, accounting, and statistical sources which explain some of the \$43-billion gap, but much of the gap remains unexplained.

Cliff Rossi is preparing a staff report on how tax reform has affected agricultural and rural bank tax liability. Lower marginal tax rates and portfolio adjustment out of tax-exempt securities are likely to be the most significant factors affecting small bank taxes. Cliff has also undertaken an analysis using the 1982 IRS farm proprietorship tax database, which shows that the U.S. Treasury will continue to lose money under tax reform from taxing farmers.

Deano Hagerman has continued to compile lists of commercial bank and savings and loan associations that have closed or required some type of regulatory action since 1983. In addition, Deano has begun tracking S&L's that are still in operation but maintain below-regulatory capital standards.

Publications

Don Lerman and Jim Mikesell recently had two articles published on the effects of using a revised poverty measure designed to reflect both income and wealth. "Impacts of Adding Net Worth to the Poverty Definition," published in the October-December, 1988 issue of *Eastern Economic Journal*, found a higher share of young persons and renters in poverty (as well as numerous other changes) when household wealth is considered. A second study, "Rural and Urban Poverty: An Income/Net Worth Approach," published in the Summer 1988 issue of *Policy Studies Review*, analyzed changes in the composition of poverty under the revised income/wealth measure for rural and urban populations separately.

"Uncertain Future for Rural S&L's," by Cliff Rossi, was published in the May issue of *Agricultural Outlook*. The paper reviews the possible effects on rural thrifths of provisions in the proposed savings and loan bailout legislation offered by the Administration.

"'Farmer Mac' Mortgage Market Coming on Line", published in the April, 1989 issue of *Farmline*, was based on information supplied by Stephen Hiemstra.

Recent issues of *The Review of Regional Studies* have included a couple products of ERS-U. of Wisconsin cooperative research. Volume 18, No. 1 includes a paper by Glen Rogers, Ron Shaffer, and Glen Pulver on "Identification of Local Capital Markets for Policy Research." The authors examine alternative definitions of local capital markets for small nonfarm businesses in rural Wisconsin and find statistical evidence that sub-county markets exist. Issue No. 2 leads off with a paper by Glen Pulver and Ron Hustedde on "Regional Variables That Influence the Allocation of Venture Capital: The Role of Banks." The paper discusses factors affecting the allocation of venture capital in Wisconsin and Minnesota, with particular emphasis on the role local banks play as informal referral agents. Glen and Ron found that rural banks were less involved in venture capital markets than were their urban counterparts.

Papers Presented and Meetings Attended

At the Southern Agricultural Economics Association conference in Nashville, in February:

Deano Hagerman presented "The Savings and Loan Crisis: Implications for Rural Capital Formation", coauthored with Cliff Rossi. Thrift industry financial performance was measured for S&L's classified as rural, urban, or located in an energy-belt State. Rural thrifths have not suffered significantly more than their urban counterparts, despite many insolvencies.

Cliff Rossi presented a paper on "Tax Progressivity for Farmers After Tax Reform," coauthored with Ron Durst. An analysis of average tax rates for farm proprietors prior to the Tax Reform Act of 1986 revealed a somewhat progressive system. Despite sharp reductions in marginal tax rates, the effective progressivity of Federal income and self-employment

taxes for farm proprietors increased as a result of base broadening provisions.

At the Eastern Economic Association conference, in Baltimore, March 3-5:

Don Lerman presented "An Analysis of the Recent Surge in Consumer Debt in Rural Areas." The paper found that rapid growth in aggregate consumer debt in rural areas over the 1983-86 period increased the consumer debt-to-income ratio of the mean rural household to above that of the mean urban household. The percentage of "high debt" rural households (those with consumer debt payment obligations of greater than 15 percent of income) increased from 11.4 percent in 1983 to 16.4 percent in 1986. More troubling was the increase from 4.6 percent to 7.9 percent in rural high-debt "insolvent" (negative net worth) households, a group likely to have difficulty repaying loans in the event of economic adversity.

Dan Milkove presented some preliminary evidence on the subject "Does Deregulation Mean the End of the Rural Community Bank?" Several measures suggest that the pace of structural change in banking is picking up speed. As of early February, 1989, the number of commercial banks (12,837) had dropped by more than 1,200 just since the end of 1986. Though bank failures have been quite high in recent years, the majority of this decrease is due to a rapid growth in mergers through which banks become branches of other banks. However, a closer look at the data indicates rural communities may not be significantly affected by this activity. Many mergers came about when multibank holding companies converted former bank affiliates to branches in States such as Texas that only recently permitted extensive branching. Hence the rural bank (branch) was already subject to outside control.

Cliff Rossi presented a paper on "Prepayment Cost Analysis for Farm Mortgages." The paper compares results between two methodological approaches for computing prepayment costs on mortgage instruments. Based on simulation results, it was concluded that a binomial option pricing model was more flexible in estimating prepayment costs over time than was a present value method.

Stephen Hiemstra spoke about his study of the Federal Agricultural Mortgage Corporation (Farmer Mac) at a one-day conference sponsored by the Independent Community Banks of North Dakota on February 2, in Bismarck, ND. Around 60 local country bankers who had purchased Farmer Mac stock attended. Other speakers at the conference included members of the interim board of directors of Farmer Mac and the North Dakota Banking Commissioner. The participants were particularly interested in details of the FmHA secondary market, Farmer Mac's influence on competitive relationships among lenders, and the forthcoming underwriting and appraisal standards.

Jim Mikesell attended the second annual meeting of WRCC-63, "Rural Credit Systems of the West", in Tempe, AZ, January 12-13. Jim presented an overview of relevant ERS

research. Representatives of Western universities and the Federal Reserve Bank of Kansas City gave similar reports for their institutions. These reports illustrated both a similarity and diversity of rural credit issues. The group had 2 guest speakers: Richard Kelly, manager of the Agricultural Loan Department at Valley National Bank (the Nation's 4th largest agricultural lending bank), and Marvin Duncan, Acting Chairman of the Farm Credit Administration.

Briefings and Miscellaneous

On January 19, Stephen Hiemstra and Steve Koenig gave an ERS briefing on the prospects for secondary markets in agricultural lending. Included were presentations on the new Farmer Mac market and the market for FmHA loan guarantees.

Cliff Rossi and **Jerry Stam** attended a seminar on restructuring banks and financial services offered by the American Enterprise Institute on April 11. While general remarks concerning redefinition of financial markets by Allen Meltzer, George Benten, and William Haraf were featured, the current thrift industry crisis received considerable attention from the panelists.

Cliff Rossi and **Steve Koenig** attended the Society of Government Economists April Luncheon on "The Thrift Crisis: An Update", presented by James Barth of the Federal Home Loan Bank Board.

On February 8, **Stephen Hiemstra** gave a half-hour interview to Gordon Carlson of the American Bankers Association, who is preparing an article on Farmer Mac underwriting standards and how bankers should prepare for them. On March 8, Steve was interviewed on Farmer Mac's future by David Pelzer, Editor of *Agri-Finance Magazine*, who plans a feature article on Steve's *Prospects for a Secondary Market in Farm Mortgages*. He was particularly interested in the relationship between Farmer Mac and the Farm Credit System and in competitive relationships between lenders and poolers. On April 6, Steve spoke to Jennifer Lieffer, a reporter for *Farm Futures*, a weekly newsletter published in Milwaukee, WI by the editors of *Agriculture* magazine. Ms. Lieffer was interested in issues concerning approval of underwriting standards and Farmer Mac's progress in preparing to pool mortgages.

FARM AND RURAL ECONOMY BRANCH

View from the Branch

by Tom Carlin

While preparing a talk for the Rural Data Needs conference held in Lexington, KY, the last week in March, I reflected on the important role that universities play in our research program. FRE currently has active cooperative research with universities in Arkansas, California, Georgia, Kentucky, Mississippi, North Dakota, Ohio, and Wisconsin. We have two types of agreements. For lack of a better way to categorize

them, I will refer to them as single-institution and multiple-institution research. The first type, the most common, is a research project involving a single university and ERS researchers. The second type can be characterized as a loose confederation of two or more universities focusing on a central research topic. Four of our active research agreements, which involve collecting longitudinal information about farm families, illustrate the second type.

Anyone involved in regional research readily appreciates the difficulty in managing such enterprises. It is intrinsically difficult for social scientists basically trained and rewarded to be stand-alone researchers to undertake common analysis using common definitions and procedures and focusing on mutually-agreed-upon policy issues. This is an age old problem. Each State researcher can readily undertake analysis of their data for their own clientele. If the results are to be helpful to a broader national clientele, however, they somehow have to relate to paradigms developed from broader national data sets. Information users and policy makers will not take the time or have the patience to undertake this task. The responsibility clearly falls on the analysts. In ERS, we are frequently asked to provide a briefing paper on a particular topic for a policy official; the paper cannot be longer than 5 double-spaced pages. The higher up the official, the shorter the report. You simply cannot reconcile methodological differences in a five page briefing paper. In my view, developing a common ground is the biggest challenge ahead for researchers involved in collaborative research efforts and it is the most critical.



A gazebo in Bellville, OH awaiting summer activities.

Branch Activities and News

Tom Carlin, Mindy Petrulis, and Judith Sommers attended an Input-Output Modeling and Economic Development Applications conference held by the North Central Rural Development Center in Kansas City, February 28-March 2.

Agriculture and Community Linkages Section

Publications

Bernal Green and colleagues from the Arkansas Ag. Exp. Station have a new publication entitled *Socioeconomic Structure and Change in Four Arkansas Regions* (U. of Arkansas Bulletin 915, February, 1989). The report is an analysis of some of the economic and population traits of the Arkansas economy. The first section delineates the regions employed in the description of Arkansas. A consideration of socio-demographic and economic structure follows. A third section examines income levels and source of incomes in greater detail, and a fourth places Arkansas regions into an economic specialization classification framework. The final two sections are a broad-based comparison of the regions and a consideration of policy implications.

Papers Presented and Meetings Attended

Fred Hines presented a paper at the Spring Agribusiness Outlook and Policy Conference in Des Moines in February 1989. His paper, "Farm and Farm-Related Employment, Rural Regions and Economic Performance in the 1980's," stressed the importance of farm and farm-related employment in Iowa and the U.S. in recent years.

Briefings and Miscellaneous

Wendell Holmes completed the 18-hour "ERS Writer's Workshop" in March.

Agricultural Labor and Household Well-Being Section

Publications

A Summary of Federal Laws and Regulations Affecting Agricultural Employers (AIB No. 550), by **Jack Runyan**, was released in January. This report highlights the Federal laws and regulations, including State-operated workers' compensation and unemployment compensation, that apply to farm employers and hired farmworkers. These laws, and the regulations that enforce them, are the Fair Labor Standards Act, Occupational Safety and Health Act, Migrant and Seasonal Agricultural Workers Protection Act, Immigration Reform

and Control Act of 1986, workers' compensation acts and the various Federal tax acts. The demand for a second printing was made in March. The March, 1989 issue of *Farmline* carried a synopsis of the publication in its "Reports in the News" section.

Jim Duffield, Robert Coltrane, and Mitch Morehart (FSFA) authored *Labor Expenditures Help Determine Farms Affected by Immigration Reform* (AIB-557), released in April. The Farm Costs and Returns Survey data used in this report suggest that farms with sales of \$500,000 or more, farms specializing in vegetables, fruit and tree nuts, and horticultural specialty crops, and farms in the Pacific and Southeast regions will be most affected by the Immigration Reform Act of 1986.

Trends in the Hired Farm Work Force, 1945-87 (AIB-561), by Victor Oliveira, was released in April. The report examines the historical trends of the three groups comprising the hired farm work force in the United States: domestic workers, legally-admitted foreign nationals, and undocumented workers. The report indicates that the numbers of domestic workers and legally-admitted foreign nationals doing hired farmwork have stabilized in recent years after wide variations responding to wartime labor shortages, changes in government work programs, and increased mechanization. The number of illegal aliens working in U.S. agriculture is unknown owing to lack of accurate data, but the increase in apprehensions of these aliens after 1965 suggests a large population. The Immigration Reform and Control Act of 1986 will probably significantly influence the composition of the hired farm work force.

Papers Presented and Meetings Attended

Jim Duffield presented "Choosing Production Strategies For Beef Pasture Systems In Georgia: A Legume Beef Pasture System Versus a Nitrogen Grass System" at the Southern Agricultural Economics Association meetings, Nashville, February 5-8. In his paper, Jim used a systems research approach to analyze the performance of beef pasture systems when they interact with various resource and management constraints. Two experimental pasture systems (a legume and a nitrogen grass system) were designed to study the effects that a greater use of legumes in a system might have on calf growth and profitability. A Monte Carlo programming model showed that the nitrogen grass system dominated the legume system by second-degree stochastic dominance. Results also indicated that, over time, a cow-calf enterprise was less profitable than an enterprise that also included stocker and finishing phases.

Farm Structure Section

Research

David Henderson and Scott Sanford (CED) had their paper, "A Regional Model of Import-Labor Substitution: The Case of Textiles," accepted for presentation at the Southern Regional Science Association meetings. The paper develops a model which estimates the regional textile employment decline caused by textile imports. The results indicate that textile imports substitute for domestic employment within the

Piedmont region. The estimated elasticity of textile imports with respect to regional textile employment was found to vary between counties in the region.

Fred Gale has completed a paper entitled "Changes in the Number of U.S. Farms: The Role of Economic Conditions and the Long-Run Trend." The number of farms is hypothesized to be determined by a long-run trend component (the number of farms decreasing over time at a decreasing rate) and by short-run economic conditions. Estimation of regressions using USDA time-series data shows that farm output and input prices, farm exports, and real interest rates have induced deviations from the long run trend during the 1975-88 period, while the number of farms during the 1959-74 period can be explained using only the model's long-run trend component

The results suggest that the long-run trend toward fewer farms has played itself out; thus, we can expect that the large reductions in farm numbers experienced during the 1980s resulting from poor economic conditions should be followed by a return to much smaller declines. The results also demonstrate the importance of considering the role of economic conditions in understanding changes in the number of farms. Fred is currently extending the model by applying it to pooled cross-section time-series data (State-level), separating out the effects of livestock and crop prices, and testing the effects of Government payments, net farm income, and off-farm income.

Publications

Nora Brooks and Donn Reimund completed *Where Do Farm Households Earn Their Incomes?* (AIB-560). Off-farm income is a permanent, significant component of total income for many farm households. In 1986, half of all farm households depended mainly on off-farm income for family living expenses, while two-fifths depended primarily on farm income. Less than a tenth of the households depended on both farm and off-farm income. Farm commodity programs are important in maintaining income levels for many farm households, but those that depend primarily on off-farm income probably receive greater benefits from policies designed to initiate and maintain growth in the overall economy. This report examines the relative importance of farm and off-farm sources of income by type of farm, farm-size, region, and proximity to major metro employment centers.

David Henderson, Luther Tweeten (Ohio State U.), and Dean Schriener (Oklahoma State U.) had an article entitled "Intraregional Development: Agricultural and Nodal Adjustment in Oklahoma's Southern High Plains" published recently in *Regional Science Perspectives*. Dave presented the paper at the Mid-Continent Regional Science Association meetings in June, 1988. Results indicate changes in farm income, farm population, or the acreage base influence the location of retail businesses in agriculturally-dependent areas. The analysis indicated that the farm demand flows tended to shift rural business revenues upward through the community hierarchy away from small communities toward larger communities. The farm demand transfers help explain the dynamics of rural central-place hierarchies as a function of adjustments in the farm sector.

RURAL BUSINESS AND GOVERNMENT BRANCH

View from the Branch

by Norm Reid

Several recent opportunities to speak to congressional staff and other groups has reminded me just how poorly the policymaking community understands rural problems and the strategies most likely to fit them. While we have made great efforts to communicate our understanding to a broad audience, it is clear that we have only begun the job.

Among the messages that need to be communicated are these:

- There is no single rural problem. In the South, improving income-generating potential is the major need. In the Midwest, where nonmetro incomes are relatively high, population retention is the largest issue. In coastal areas and the Southwest that have grown rapidly, managing growth--not stimulating it--is the greatest challenge.
- While rural areas don't share a problem, they do share the fact of being rural. Rural means spatial isolation and small, low density settlement patterns. These conditions help define a way of life that many prefer, but they also hinder the delivery of services and limit the ability of rural businesses to fully participate in the economic mainstream.
- Growth and development are not the same. Programs to stimulate employment meet short term needs, but unless it is sustainable, they don't lead to development. Development is a long-term process; to consciously achieve it requires both a strategy and a commitment to persevere. At best, quick fixes are irrelevant to development; at worst, they are distracting.

Part of our difficulty in communicating with policymakers is due to the fact that we don't understand economic development very well. Our research points to small scale and spatial isolation as critical factors limiting development in the rural U.S., not a lack of infrastructure or business capital. But political thinking is dominated by models of development that emphasize these "hard" investments and discount "softer" elements, such as information, services, and institutional development. Without better theory and research to support it, we will be unable to make a convincing case for developmental strategies that are appropriate to the conditions facing our rural areas.

Publications

Public Water Supply in Rural Communities: Results from the National Rural Community Facilities Assessment Study (Staff Report AGES 89-4), by Norman Reid, Pat Sullivan (F&T), and Tom Stinson and Barry Ryan (U. of Minnesota), was released in January. The report presents data on the

characteristics of public water and public water supply systems serving rural communities, based on a national sample survey. The data tables in the report are also available from ERS on diskette. (See *Rural Public Water Systems* in *Data Scene* section for information on ordering.)

Branch Activities and News

Norm Reid and Ron Knutson (Texas A&M U.) conducted workshops on rural development at the Congressional Staff Conference on "Fixing Farm Policy: A Tune-Up or an Overhaul?", held in Richmond, VA, March 31-April 1. The Congressional Research Service, the Farm Foundation, and Resources for the Future sponsored the conference.

Norm also spoke about rural development policy issues to participants in the MI Lead Program on February 8. MI Lead -- the Minnesota/Iowa Leadership Empowerment for Agricultural Development Program -- is a multi-year leadership development program for outstanding young leaders from rural areas of the two States.

Norm, Martha Frederick, Dave Sears, and Tom Rowley met with Robert Gaston of TVA's Economic Development Branch on December 8, 1988 to discuss rural development programs and provide him with some relevant ERS publications. Gaston is writing a report on current rural development strategies and programs.

Rural Business and Industry Section

Publications

Entrepreneurship Theories and Their Use in Rural Development: An Annotated Bibliography (Bibl. and Lit. of Agr. 74), coauthored by Martha Frederick and Celeste Long, was released April 12. Research on entrepreneurship has changed over the 250 years since the concept was born in economic theory. The focus has changed from the characteristics of an individual entrepreneur to the current emphasis on the contributions of entrepreneurship to economic development. The bibliography covers the history of the definition of entrepreneurship, and how the concept has been used in theory. It also covers the stages of an entrepreneurial business, environments favorable for entrepreneurship, and entrepreneurship as a development strategy. Contact Martha at (202) 786-1547 for a copy.

Papers Presented and Meetings Attended

James Miller and Herman Bluestone presented papers at the 28th Annual Meeting of the Southern Regional Science Association in Chapel Hill, NC, April 27-29. Jim's paper, "Recent Rates of Survival and Growth of Independent Firms and Corporate Affiliates in Rural and Urban America?", examines what happened to businesses starting up during the 1978-80 period. The analysis indicates that while the independent business sector created new businesses at a lower rate than multi-establishment firms, independent (single-establishment) firms, once in place, survived better and increased employment at a greater rate.

The second paper, which Herman co-authored with Celeste Long and Shirley Porterfield, is entitled "Small Business Activity: Does It Make a Difference at the County Level." The study found that counties with high rates of small business activity or highly committed to small businesses were better off economically than other counties; they had faster employment and income growth and lower rates of unemployment. However, the relationships were better defined for metro than nonmetro counties. Herman also chaired a session at the meetings on "The Nonmetropolitan Labor Market." He and David McGranahan (HR) organized a section on "Rural Entrepreneurship" for the Northeast Regional Science Association Meetings in Boston, May 12-14.

Shirley Porterfield presented "Nonmetropolitan Wages In The Post-Industrial Economy," at the Northeast Regional Science Association annual meetings in Boston, on May 14. The paper analyzes wages by industry at the county level, examining both cross-industry and cross-county wage differentials. The first analysis groups counties by degree of urbanization and proximity to metropolitan areas and then compares wages within each group of nonmetropolitan counties across groups of services-producing and manufacturing industries. Holding industry constant, the second analysis examines wage differentials across county groups, including an analysis of wages in metropolitan versus nonmetropolitan counties.

Average wages offered by services-producers are generally lower in rural counties than in urban counties. However, when a price index derived from indices published by the Bureau of Labor Statistics is used as a proxy for geographical differences in cost of living, metropolitan-nonmetropolitan average wage

differentials nearly disappear. Also, services-producing wages in many nonmetropolitan counties are higher than the average services-producing wage and approach wages paid by lost manufacturing and mining positions.

Alex Majchrowicz attended the Conference on Input-Output Modeling and Economic Development Applications sponsored by the North Central Rural Development Center in Kansas City, February 28-March 3. The conference focused on the use of input-output analysis to assess the benefits and costs of various development strategies and their impact on economic growth. Approximately 100 researchers, academicians, and industry representatives attended the meeting.

Briefings and Miscellaneous

The *Metro and Nonmetro Labor Force and Income Data Diskette*, which presents BLS State and Area Labor Force Data for 1976-87, BEA Total Employment Data for 1969-86, and BEA Personal Income Data for 1969-86 in 12 Lotus 1-2-3 tables, is now available. The supplemental *Data Users' Guide*, which explains how the estimates are made for each data series, is expected to be available by June. (See *Rural Development in Data Scene* section for information on ordering.)

Martha Frederick was a guest lecturer in two Applied Geography classes at the U. of Idaho on April 27 and 28. The theme of the classes was "what geographers do in the 'real world.'" In one lecture, she discussed her work on the section's database, last year's *Rural Development Databook* and accompanying *Rural Development Data Diskettes*, and this year's database products -- *Metro and Nonmetro Labor Force*



This landscape illustrates emphatically both the spatial isolation and low density settlement patterns of rural America.

and Income Data Diskette and Metro and Nonmetro Labor Force and Income Data Users' Guide. In the other lecture, Martha focused on her rural entrepreneurship work. She talked about writing the annotated bibliography on rural entrepreneurship and about her current study of entrepreneurship in rural counties dominated by one or two large firms. Martha also conferred with Harley Johansen on cooperative research concerning local development efforts and development effects.

In radio interviews with the USDA News and Brownfield Radio Network, **Alex Majchrowicz** discussed the nonmetro economy's recent performance and the findings published in *Employment and Earnings in Nonmetro Industry, 1979-86* (AIB-552), coauthored with Linda Ghelfi (HR).

Alex is currently taking a course, "Business Cycles and Economic Modeling," given by Clopper Almon at the U. of Maryland, this Spring. His participation in the course and the Kansas City input-output modeling conference are part of RBI's efforts to improve its capability of analyzing employment and income conditions and change in the rural economy.

Government and Development Policy Section

Research

Work continues in the GDP Section on a variety of interesting and policy-relevant research studies aimed at examining the role of governments at all levels -- local, State, Federal, and regional -- in encouraging and enhancing economic development in rural America.

Rick Reeder has been studying the targeting of aid to distressed rural communities. Among the topics investigated are the criteria that the Federal government and States might use in an allocation formula, e.g., local unemployment rate and local tax effort, and the pros and cons of each criterion. A summary of Rick's work on this subject was reported to the staff of the Congressional Joint Economic Committee in February.

In March, RBG hosted the first in a series of mini-conferences on the "Foundations of Rural Development." Some 15 researchers from academia and government attended the session to discuss the first conference's topic: the role of entrepreneurship in rural economic development. Future conferences will focus on education, physical, and social infrastructure. A book incorporating material prepared for each conference will be published at the end of the project. **Norm Reid, Merv Yetley, Dave Sears and Tom Rowley** are organizing the effort.

John Redman and Tom Rowley have completed the initial phase in a study of State economic growth patterns during the 1979-86 period. This phase resulted in the identification of five categories of States based on 1) the difference between metro and nonmetro real earnings growth, and 2) comparisons of these individual growth rates with the overall national rate. The authors have identified states such as Massachusetts where both metro and nonmetro growth rates were strong, other states such as West Virginia where both were weaker than the

national rate, and states such as California where the metro rate was strong but the nonmetro rate was weak. No states, however, were found where the nonmetro rate exceeded the national rate but the metro rate did not. Their investigation of this urban-rural linkage continues with analysis of the underlying occupational and economic base structure.

Section researchers are working on two pieces that will become part of the division's forthcoming volume on strategies for rural development. **Rick Reeder** and Cliff Rossi (F&T) are preparing a chapter on financing rural infrastructure. **Norm Reid, Dave Sears, and Tom Rowley** are preparing an overview chapter on infrastructure as an economic development tool and are coordinating the preparation of chapters by three outside experts -- Ed Parker, David Forkenbrock, and Neil Grigg -- on specific aspects of this topic.

Publications

"Do Federal Funds Help Spur Rural Development?" by **Elliott Dubin** and **Norman Reid** appeared in the October, 1988 issue of *Rural Development Perspectives*. The authors argue that Federal funds to rural areas are disproportionately directed toward maintenance functions, and that an alternate allocation of funding could have greater developmental impacts.

Geographic Distribution of Federal Funds in 1985 (Staff Report AGES89-7), by **Elliott Dubin**, was published in March. The report summarizes the amount of Federal funds, by function and type, received by different types of counties in 1985. For the nation as a whole, nonmetro counties received 22 percent less Federal spending per capita than metro counties-- \$2,478 versus \$3,192. However, when defense spending is excluded from the totals, the difference in per capita expenditures received falls to \$5 (\$2,180 for metro counties and \$2,175 for nonmetro counties). Income security programs provided nearly two-thirds of all Federal spending in nonmetro counties (compared with 47 percent in metro counties). The distribution of funds by type of State is also presented. The data are available in electronic form through ERS. (See title in *Data Scene* section for information on ordering.)

A new ERS Staff Report, *Local Response to Federal Budget Policies: A Study of Nonmetropolitan Communities in Ohio*, is in its final editing stage. This report, by Philip Russo (Miami U.) and his associates, Douglas Shumavron, Kenneth Hibbeln, and Frank McKenna, presents the results of interviews of local officials in six county governments and six municipalities in Ohio. It focuses on how rural local governments and nonprofit agencies adapted to cuts in revenue sharing and other Federal aid programs during the 1980s. **Rick Reeder** is coordinating the publication.

Rick's article, "Targeting State Aid to Distressed Rural Communities," will be published in the Spring, 1989 issue of *Publius*. This article examines recent trends in targeting State aid for rural economic development. It includes a discussion of various targeting indicators and an assessment of past State performance in allocating aid among urban and rural governments.

Papers Presented and Meetings Attended

Elliott Dubin presented "Financing Rural Elementary and Secondary Education" at the annual meeting of the American Education Research Association (AERA) in San Francisco, on March 29. Dubin's presentation focused on the differences in education spending per pupil in metro and nonmetro counties, the wide variation in per pupil spending among nonmetro areas, and the role of State aid in reducing the differences in education resources among counties.

At the Southern Regional Science Association meetings in Chapel Hill, NC, on April 29, Rick Reeder presented "The Economic Development Consequences of Growing Elderly Populations in Nonmetro Counties", which he co-authored under a cooperative agreement with Nina Glasgow (Cornell U.). Retirement immigration counties benefited from rapid economic growth during the 1980s. However, their population growth has declined somewhat in recent years, raising doubts that their economies will continue to grow as rapidly as in the past. Local governments in retirement counties had lower tax rates than other nonmetro counties, but were found to spend less on education, highways, and other important public services (including health and hospitals). In contrast, "Aging-in-Place" counties (high percentage elderly but without much retirement immigration) had high tax efforts and high spending levels, and their spending on health and hospitals has increased rapidly in recent years.

Dave Sears attended a meeting of rural education specialists interested in exploring ways in which public schools might become involved in rural economic development. The meeting, held on January 25, was organized by Hunter Moorman of the U.S. Department of Education. Sears suggested ways in which ERS might be able to identify resources (both literature and experienced personnel) to assist local and state educators in economic development efforts.

Rick Reeder attended a "think session" at the Advisory Commission on Intergovernmental Relations on March 6 to advise them on their plans for a conference on education finance.

Dave Sears attended a meeting on rural development research in Minneapolis, April 3-4. The meeting was co-sponsored by the U. of Minnesota and the Northwest Area Foundation. In addition to Sears, researchers from Oregon, Idaho, Montana, North Dakota and Minnesota were in attendance. The topics discussed were: 1) what high priority rural development research activities should be undertaken, and 2) how to strengthen the linkages between research and policy-making.

Briefings and Miscellaneous

On January 23, Elliott Dubin and John Redman met with Michael Lambert of the National Home Study Council, a private group that reviews courses offered by correspondence schools to assess the qualifications of instructors, the quality of materials, and the appropriateness of the courses' level of difficulty for the student population. People can take such courses to upgrade skills, train for new careers, study for State

licensing exams, or prepare for the General Equivalency Diploma.

In Lambert's view, home-study programs should have considerable utility in rural areas because they are a relatively economical way of meeting educational objectives. Such programs eliminate the need to build expensive facilities that may serve only a few people in rural areas, and permit students to work full-time while taking courses at their own pace.

HUMAN RESOURCES BRANCH

View From The Branch

by David McGranahan

After many quiet years, the Washington air is filled with new programs and proposals (as well as an unusually heavy dose of pollen), many of which have a potentially substantial impact on rural people. Last fall, there was the passage of the welfare program. Now minimum wage legislation of some sort seems a real possibility. People think that a rural development bill will emerge from congress next year if not this. Education programs continue to be a major concern.

HR staff are very involved in analyzing the potential impact of these programs on rural people. As noted below, research is underway in the Income and Well-Being Section on questions relating to the new welfare legislation, and research is being initiated in the Rural Labor Markets Section on the people likely to be affected by new minimum wage levels. I recently helped brief Senate and House staff on rural economic problems. A number of us are working on chapters for the education section of a forthcoming report on rural development strategies.

Our ability to provide answers about rural people and the potential importance for programs for these people depends heavily on our on-going research program. Bob Hoppe's extensive work on poverty and low income provides an essential background for his work to organize a monograph on the importance of welfare reform for rural areas. Molly Killian's previous work on employment growth and stability in local labor market areas provides a basis for the strategies report chapter relating education levels to employment growth. Tim Parker, a co-author with Molly, previously worked with Leslie Whitener on a study of local labor market conditions facing farmers.

We cannot always be sure of the consequences of our work. The AREC distinction between nonmetro counties adjacent to metro areas and those nonadjacent is being seriously considered as a basis for allocating funds in the new rural development bill. Calvin Beale is busy writing up precisely the way adjacency was defined in the *Rural-Urban Continuum Code*, and making sure that everyone uses the newly verified version of the code. (See *Data Scene* section for other information on the code.)

The close tie between a strong research program and the ability to respond intelligently to policy-related questions suggests the need for a staff strongly committed to and involved in serious research. This often creates a tension, since involved researchers may see dealing with immediate policy-related issues as a distraction. But this may be a necessary tension, one to recognize and manage, not one to eliminate. Given the strength of the current HR research staff, and the quality of the people joining us, I expect this tension to persist.

Looking back over these paragraphs, they seem true but a bit earnest. I apologize. Writing the VFB is not unlike writing to older relatives. You have to be respectful and earnest and leave out the unpleasant.

Income and Well-Being Section

Research

Donald Bellamy has been invited to author a paper with Alfred Parks, Prairie View U., in a special issue of *The Review of Black Political Economy*. Sponsored by the AAEA Committee on the Opportunities and Status of Blacks in Agricultural Economics, the special issue will feature 10 articles addressing topics pertaining to economic and political factors affecting the well-being of rural blacks. Donald and Alfred's paper, entitled "Trends, Strategies, and Prospects for Human Resource Development Among Rural Blacks", will use Current Population Survey data to focus on various aspects of well-being among the black population from a human capital perspective.

Publications

The Importance of Transfer Payments in Nonmetro America (AIB-562), by Linda Ghelfi and Robert Hoppe, was published in March. Linda and Bob found that transfer payments are an important source of income in nonmetro areas, accounting for 18.7 percent of personal income. Social Security and medical payments account for more than half of transfer payments to nonmetro areas. Transfers, which continue even if local employment falls during recessions, may make local economies more stable in the short run. However, nonmetro economies that are highly dependent upon transfer income may be sensitive to changes in government programs.

Defining and Measuring Nonmetro Poverty: Results from the Survey of Income and Program Participation, (SIPP Working Paper 8822, U.S. Department of Commerce, Bureau of the Census), by Robert Hoppe, was released in late 1988. This paper uses the unique monthly data from the Survey of Income and Program Participation (SIPP) to define poverty in different ways. Regardless of how poverty is measured, however, nonmetro areas have disproportionately more poor than metro areas. None of the definitions examined seem intrinsically superior. The choice of which definition to use depends largely on the research problem under consideration.

Bob Hoppe will edit an ERS monograph on the potential effects of the new Family Support Act (FSA) in nonmetro areas. The monograph will involve nine authors, from both

inside and outside ARED. Its target completion date is early 1990. So far, the outside authors include Robert Greenstein, Susan Steinmetz, Leon Ginsberg, and Leif Jensen. The FSA is a major welfare reform legislation affecting recipients of Aid to Families with Dependent Children (AFDC). The act requires that States establish a Job Opportunities and Basic Skills (JOBS) program to provide education, training, and work-experience to help AFDC parents move from welfare rolls into jobs. The authors will address the following policy questions:

- How relevant is the new act to the rural poor?
- How will characteristics of rural communities affect the success of the act, and what impact will the act have on rural communities?
- How helpful will be JOBS program to the rural poor, given the history of work programs in rural areas?
- Is the local social welfare system sufficiently developed in rural areas to provide the services (child-care, transportation, paternity determination) mandated by the act?
- What additional reforms do the rural poor need?

Papers Presented and Meetings Attended

Peggy Ross and Elizabeth Dagata participated in the annual meeting of the Southern Rural Sociological Association (SRSA) in Nashville, during February. SRSA meets simultaneously with over a dozen southern professional agricultural organizations, including the Southern Agricultural Economics Association, that are affiliated with the Southern Association of Agricultural Scientists. During the year, the Association negotiated an agreement with the research directors of the 1890 land-grant institutions to co-sponsor a commemorative issue of Southern Rural Sociology that recognizes the Centennial celebration of the establishment of the 1890 institutions. The special issue will solicit submission of articles dealing with topics and issues relevant to minority populations in the South.

As SRSA's 1988-89 President, Peggy Ross directed her presidential address to the topic of human resources in the South, focusing on how the economic and population trends of the past two decades have had different effects in shaping the human resource base in the metro and nonmetro South. She argued that effective strategies for human resource development in the 1990's requires new, innovative, and coordinated efforts at Federal, State and local levels that address needs in several areas. The development of basic educational skills, improved adult education and training, especially for displaced workers, and combatting problems of chronic poverty and inequality are among these needs. Peggy also moderated a panel that examined changing emphases of rural sociology in the South over the past twenty years.

Elizabeth Dagata presented "Income Trends Related to the Economic Structure of Nonmetro Counties in the South". This paper used BEA data and the ERS county classification

scheme to focus on trends in per capita income changes in the metro and nonmetro South. Elizabeth found that income gains in the nonmetro South kept pace with or exceeded gains in the metro South, until 1973, with income gains eroding from 1974-1986. However, there was considerable variation in per capita income within the nonmetro South. From 1969 - 1986, nonmetro counties dependent on natural resources (farming and mining) had per capita incomes that for the most part were above nonmetro average income, while poverty and government-dependent counties had incomes that were consistently lower than the nonmetro average. Also, those counties with the highest per capita income over the time period relied less on earnings and more on property income as a source of personal income than the counties with the lowest per capita incomes.



Computers have become an integral part of farm and rural business activity.

Briefings and Miscellaneous

Peggy Ross served as a reviewer for the Aspen Institute's Competition for research proposals on rural poverty issues. Peggy reviewed 30 of the 231 proposals submitted from which approximately 45 semi-finalists will be selected. Aspen anticipates selecting about 15 proposals for funding.

Population Studies Section

Publications

Alternative Definitions of Farm People (Staff Report AGES 89-9), by Vera Banks, Margaret Butler, and Judy Kalbacher, was published in March. The farm population has long been officially defined as all people who live on farms without regard to occupation or income. However, many farm-related people now live off farms and many people who now live on farms work elsewhere. Other ways of identifying them must be considered, therefore, because efficient and responsive policymaking in today's diverse farm community requires clearly-defined target populations.

This report analyzes relationships among three identifying criteria: farm residence, farm occupation, and farm income. According to data from the March, 1983 Current Population Survey, 11 million people lived in households associated with farming in some way. The criteria developed in this report yield a farm resident population of 5.6 million, a farm occupation population of 7.4 million, and a farm income population of 6.3 million. The report demonstrates the relative strengths and weaknesses of these alternative definitions of farm people, makes comparisons to emphasize the ways that farm people differ from nonfarm people and each other, and discusses the total farm-related population, defined as all persons in farm-related households identified by residence, occupation, or income. The authors conclude that, although one alternative or another may be better for some purposes, no one definition

is so clearly superior to the others that it alone best describes the Nation's farm people.

The Farm Entrepreneurial Population, 1987 (Rural Development Research Report 72), by Margaret Butler, will be published in May. This report identifies the farm population based on farm operator or manager occupation and/or self-employment income from farming. According to this new definition, 5.7 million people live in households tied to the farm business. Included in the report are information on sex, age, education, labor force activities, and household and family characteristics of the entire farm entrepreneurial population and its components. This report is the beginning of an annual series that will monitor farm people using farm occupation and farm self-employment income criteria.

Papers Presented and Meetings Attended

Carolyn Rogers attended the Interagency Forum on Aging-Related Statistics in February and will be participating regularly in their meetings. The Forum was established to encourage cooperation among Federal agencies that develop, collect, analyze, and disseminate data on the older population.

Carolyn Rogers, Calvin Beale and Linda Swanson attended the annual meeting of the Population Association of America in Baltimore, March 30-April 1. Topics covered that were relevant to Human Resources Branch research included: family and household subjects such as family change and children; child care research and policy issues; issues in child support; aging, retirement, health, and disability; and internal migration, urbanization and land use, and the demography of poverty and underemployment.

Judy Kalbacher attended the annual meetings of the Association of American Geographers in Baltimore, March 20-21. The meetings offered a mix of sessions, including rural development, land use, and population. A principal theme was that

opment, land use, and population. A principal theme was that meaningful research into space relationships cannot be tied to one place, but rather, must be studied within the "World Community."

Briefings and Miscellaneous

The Population Section supplied many of the background statistics for an article on the decline of small towns in the Midwest published on January 29 in the *Chicago Tribune's Sunday Magazine* section. The article included Linda Swanson's assessment of the trends: "Right now, the numbers don't look good for the Midwest...You can look at the numbers and say, 'Hey, they're doomed,' but people...come up with solutions. What the numbers suggest is not necessarily true."

The cooperative Census/ERS annual report estimates that the 1988 annual average rural and rural farm populations are 64,798,000 and 4,951,000 respectively. The rural estimate is 1.4 percent higher than in 1987, but the farm estimate shows no statistically significant change (from 4,986,000). A detailed report will be published later this year.

Rural Labor Markets Section

Research

Molly Killian, Daniel Smith, and Craig Lanza (RBG) are in the process of redefining the subarea structure within the 382 Labor Market Areas (LMAs). The LMAs are groups of counties delineated on the basis of commuting-to-work data from the 1980 Census and containing at least 100,000 residents. In their current work, Killian, Smith and Lanza have dropped the 100,000 population criterion and are identifying subareas based solely on the inter-county commuting patterns. These commuting subareas should be available by the end of the summer and can be used with aggregated county-level data only. For additional details, contact Molly Killian, 786-1540.

Papers Presented and Meetings Attended

Leslie Whitener and Molly Killian attended a meeting of the S-229 Technical Committee in Norfolk, VA on April 13. The S-229 project, "The Changing Structure of Local Labor Markets in Nonmetropolitan Areas", discussed the chances of contracting with the Census Bureau to create a 1990 Public Use Micro Sample (PUMS) using the same LMA geography used in the 1980 PUMS-D. The committee also discussed the pros and cons of using 1990 commuting pattern data to delineate new labor market areas.

At the national meeting of 4-H members and their advisors on April 21, Alan Bird presented a paper and led a session on "Today's Economy and You," which will be used as a basis for developing a national program of economic education for youth. Alan told the audience that today's economy comprises three interdependent parts: 1) the national and international economy, 2) the community or sub-national economy, and 3) the individual business and consumer economy. He also traced the economy's evolution to a "modern miracle" and its future prospects. Because Alan believes that today's youth face

unprecedented challenges, the session explored what they can do to prepare themselves. Education and experience play a key role in enhancing earnings, of course, but future citizenship requires broader education, including economic education. Producing more, so that all can enjoy a higher level of living, depends increasingly on countries and their citizens doing what they do best and doing it well. Yet, to succeed, they must produce what others will buy and reduce trade barriers.

Paul Swaim presented "Worker Displacement in the 1980s: An Overview of Recent Trends," at the American Society of Mechanical Engineers/Consortium of Social Sciences Association (ASME/COSSA) conference on "The Worker in Transition: Technological Change," on April 6. Despite the economic recovery, he found that approximately 1.5 million adults have been displaced annually from full-time jobs in recent years and roughly one-third of this group experienced large earning losses. Related research results will also be reported in the chapter, "Displacement and Unemployment," in *Job Displacement: Consequences and Implications for Policy*, John Addison, editor, Wayne State U. Press, 1990.

NATIONAL ECONOMY AND HISTORY BRANCH

View from the Branch

by Tom Hady

This time, I want to use this space to describe one of our activities that gets comparatively little public exposure--the situation and outlook function. Hardly anyone disputes that developments in the general economy can affect the performance of the agricultural and rural sectors. One need only look to the 1979-82 macroeconomic environment and its subsequent effect on the agricultural sector to demonstrate the point. To try to provide a wider understanding of what we do about the macroeconomic situation and how we do it, I asked Ralph Monaco, who is both the head of the Macroeconomics Section and our chief situation and outlook analyst, to provide a summary. Here it is:

The macroeconomic situation and outlook project exists to keep agricultural analysts aware and forewarned of the developments which might affect their commodities or the sector more generally. The project is an integral part of the cross-division agency situation and outlook program.

The work consists of three interrelated parts. First, a considerable amount of effort is devoted to simply monitoring the current macroeconomic situation. The monitoring function consists of reading newspapers, business magazines, Government and private agency reports about what is currently happening in the nonagricultural part of the U.S. economy. Collecting data from various sources and repackaging it into a form useful to ERS analysts is also a major part of the monitoring function. The section supports a computerized database of nearly 700 U.S. economic time series, and a similar number of time series spread over the countries belonging to the Orga-

nization for Economic Cooperation and Development (OECD).

Short-term macroeconomic forecasting is a second function. Each month the section puts out a quarterly macroeconomic forecast for about 30 macroeconomic indicators, including interest and inflation rates and GNP. These forecasts, prepared early in the month, are distributed to commodity analysts (for internal use only) at an informal monthly briefing and are intended as one input in the process of preparing detailed commodity price and quantity forecasts. The forecasts themselves are a combination of results of a small econometric model developed in the section and some judgment about the "intangibles" that can affect future economic activity. Most recently, the most important intangibles have been whether the Federal Reserve will continue to tighten monetary policy, and whether, or for how long, the recent OPEC agreement that has driven up oil prices can hold together.

The third function, longer-term trend macroeconomic forecasting, has been increasing in importance. About twice a year the project delivers a forward look at the economy to the year 2000. These macroeconomic projections are based partly on an annual econometric model of the developed industrial economies, developed under a cooperative agreement with Glasgow University, and partly on the long term assumptions from other agencies, including the Department of Energy and the Council of Economic Advisors.

In addition to the monthly summaries for internal use, results find their way into publications like the *Agricultural Outlook* and into briefings for the Assistant Secretary (and occasionally the Secretary) and for commodity groups.

Agriculture and Rural History Section

Publications

Jane Porter's Drought in the United States: A Short History (Staff Report AGES881020) was published in December. This, along with an earlier report, *History of Federal Drought Relief Programs* (Staff Report AGES880914), by Lowell Dyson, highlighted the Section's efforts to put the 1988 drought in historical perspective. Jane's work relates that the major U.S. grain producing areas are subject to recurring droughts. Grain production is widely dispersed, however, and never are all areas stricken by drought in the same year. Droughts have caused economic hardships for producers but have not reduced supplies enough to cause consumer shortages or inflation in the United States. Production shortfalls have instead reduced exports. Misuse of the land and inappropriate cultural practices contributed to the severity and ill-effects of droughts until the last 50 years. Research, education, and Government financial assistance has done much to restore the land and mitigate the impact of droughts after 1936.

Papers Presented and Meetings Attended

In March, Cecil Harvey attended a meeting of the National Congress of American Indians (NCAI). He was a member of a USDA delegation that attended the meetings to explain the

Department's organization, and bring to the NCAI's attention goods and services that could benefit Native Americans. Cecil addressed the group about ERS' functions and ERS publications relevant to Native Americans. The NCAI was interested in these topics because of a recent change that allows Native Americans to go directly to whatever Federal agency can best respond to their needs, instead of going through the Bureau of Indian Affairs when dealing with other Government agencies.

Joel Schor attended a meeting of the 1890 land-grant administrators to meet with those planning the centennial of the 1890 college and university system next year. Joel and Norwood Kerr have been serving on a special advisory committee to assist in the preparation of a general history of the 1890 schools. The Section has contracted with Leedell Neyland of Florida A&M U. to write a history of agriculture and the 1890 schools.

Doug Bowers attended the Organization of American Historians meeting in St. Louis, April 6-9. Sessions included papers on USDA and rural history.

Jane Porter attended the D.C. Historians Luncheon on March 31 at George Washington U., a semi-annual gathering of academic and government historians in the D.C. area.

Briefings and Miscellaneous

ERS is among the sponsors of a symposium, "The United States Department of Agriculture in Historical Perspective", that will be held at Iowa State University in Ames, June 15-18. The symposium will feature some 30 papers on various aspects of USDA history -- the largest group of papers on the subject ever presented at a conference. Former Secretary Bob Bergland will give an address, "The New Agenda USDA and Its Legacy." Doug Bowers will present a speech on "The Origin and Development of the USDA Economic Research Service." Other presentations by members of the section will be "Drafted Into the War on Poverty: USDA Food and Nutrition Programs, 1961-69," by Norwood Kerr, and "Public Policy and USDA Science, 1897-1913," by Vivian Wiser.

Lowell Dyson left April 2 for a two month stay in China. He will be a visiting lecturer at Jilin University talking on American agricultural development and USDA's role in it, as well as other historical topics. Lowell has also been asked to guest lecture at other Chinese universities.

Doug Bowers, John Lee, and Wayne Rasmussen (NAL) met with former Secretary Richard Lyng on April 4 to discuss his projected book on the secretaries of agriculture. Secretary Lyng would like to write a historical book that focuses on the political and personal side of past secretaries, how they came to be selected for the job, and how they dealt with critical problems.

Jane Porter and Doug Bowers were visited by former Undersecretary John Schnittker on January 12 for a discussion of what USDA was saying about European Community (EC) grain and soybean trade after the EC extended its Common Agricultural Policy in the 1960's.

National Aggregate Analysis Section

Publications

In *Data Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix* (Staff Report AGES 89-5), Kenneth Hanson and Sherman Robinson, U. of California, Berkeley and ERS, address the continuing tension and interplay between issues, models, and data in policy analysis. In recent years, issues and models have changed, leading to a need for evolution in the underlying economywide economic data base. The authors argue that new accounts integrating micro survey data with macro data from the national economic accounts are needed. Their paper discusses in detail the use of Social Accounting Matrices (SAMs), which provide a data framework reflecting an actor/transaction view of the economy and support disaggregated economywide modeling. In addition, they outline the relationship between a SAM and the existing national economic accounts for the U.S., including the national income and product accounts (NIPA) and the input-output accounts.

In "Contemporaneous Correlation and Modeling Canada's Imports of U.S. Crops", published in the *Journal of Agricultural Economics Research* (vol. 41, no. 1, Winter 1989), Ronald Babula, constructs multi-crop models of Canadian demand for U.S. crops using Zellner's seemingly unrelated regression (SUR), which corrects for contemporaneous correlation, and ordinary least squares (OLS), which ignores the problem. Comparing inference parameters, trade elasticity estimates, and out-of-sample forecast performance of the Canadian import-demand model obtained through each version demonstrates the importance of addressing contemporaneous correlation, even though both estimators are unbiased. This research addresses three shortcomings of the agricultural trade literature: frequent failure to account for easily-corrected econometric problems; excessively wide ranges of trade parameter estimates; and frequent failure by researchers to validate models beyond the sample.

"Drought - Induced Influences in the Wheat Sector", by Ronald Babula and David A. Bessler (Texas A&M U.) has been published in the *Proceedings of the Nineteenth Annual Meetings, Southeast Region of the Decision Sciences Institute*, Charleston, SC, February 22-24, 1989 (Edited by W. E. Hardy and J. Adrian, Jr., pp. 345-47). As part of their research on the nature of price transmission mechanisms between the crop, livestock and poultry, and consumer sectors, Ron and Dave use vector autoregression (VAR) techniques to simulate the effects of the presumably drought-induced increase in 1988 farmgate wheat price on processor and consumer prices. Results suggest the drought's impact on wheat prices may be felt for about a year in manufacturer prices and 18-20 months in retail prices. Industrial prices respond quicker and their rise is more pronounced than retail price increases. Consumer price increases peak at about 8 months after the initial farmgate rise in wheat price.

The November, 1988 issue of *Agricultural Economics*, the journal of the International Agricultural Economics Association, includes an article, "Examining the Leontief Paradox in

U.S. Agricultural Trade," by Chinkook Lee, Darryl Wills, and Gerald Schluter. The article examines the factor intensity of U.S. agricultural trade in the context of the classic Leontief Paradox as well as methods developed more recently by Leamer and others. The paper concludes that, contrary to Leontief's Paradox, factor endowments are important determinants of U.S. agriculture's comparative advantage in trade, as suggested by the Heckscher-Ohlin theory.

In "Effects of Dollar Depreciation on Agricultural Prices and Income", published in *Agribusiness*, January, 1989 (vol. 5, no. 1, pp. 43-51), Chinkook Lee and Darryl Wills analyze the effects of dollar depreciation on U.S. agricultural prices and income using an input-output model. Findings indicate that, in general, U.S. agricultural producers do not depend heavily upon imported intermediate inputs, so cost-push price increase effects should be small. The response of agricultural exports and export-related income to a lower dollar depend on price transmission and export elasticities of demand.

The December, 1988 issue of *Korea's Economy*, a publication of the Korea Economic Institute, included Chinkook Lee's article, "The Changing Nature of U.S.-Korea Agricultural Trade: A Development Perspective", a version of the paper Chin presented at the third international convention of Korea-America Economic Association, in Seoul, Korea, August 2-6, 1988. The article traces the positive effect U.S. development aid to Korea has had on Korea's evolution from an aid recipient to its present position as a viable and important commercial customer for U.S. agricultural exports.

The February, 1989 issue of *Farmland* magazine contained an article, "Korea Becomes Second Largest U.S. Export Market", which was based on information provided by Chin and Al Evans of the (ATAD). Chin's contribution described the developments in the Korean rural sector and examined the underlying forces slowing Korea's liberalization of import quotas.

Chin was also quoted on this topic in the February 24, 1989 issue of "USDA Executive Notes." ("USDA Executive News" is prepared by the Office of Government and Public Affairs, USDA for distribution to the Secretary, Deputy Secretary, under-secretary's, and assistant-secretary's.)

Papers Presented and Meetings Attended

At the 1989 American Association for the Advancement of Science meetings in San Francisco, on January 19, Sherman Robinson, participated in a session on "Developments in the Use of Federal Government Economic Statistics for Scientific Research." He also presented "Data, Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix", a paper co-authored with Kenneth Hanson, (For discussion of paper's content, see title under "Publications".)

On March 16, Sherman presented a seminar based on the paper for the Washington Statistical Society. The session was chaired by David Harrington (OD), and Gerald Schluter discussed Sherman's presentation. The seminar generated a lot of

interest in both the economic accounting and the economic modeling issues, and stimulated lively exchanges in the discussion period among participants from eight government agencies and private firms.

On April 7, Sherman presented a seminar on computable general equilibrium (CGE) modeling of agricultural and trade policy issues for the Economics and Agricultural Economics faculty at Cornell U.

On February 3, Maureen Kilkenny, Pennsylvania State U., presented a seminar, "Modeling Rural vs. Urban Impacts of Agricultural Trade Liberalization", as part of her cooperative agreement with ARED/ERS. Much of the agency work on agricultural trade liberalization has dealt with its effects on economic sectors or nations. Dr. Kilkenny is extending the recent CGE-model-based analysis of this issue to a spatial rural-urban perspective. In the seminar, Dr. Kilkenny presented the basic model skeleton and seminar participants gave their reactions to the model, suggested modifications, and recommended data sources for empirically implementing the model.

On February 24, Ron Babula presented "Drought-Induced Influences in the Wheat Sector", co-authored with David A. Bessler (Texas A&M U.), at the annual meetings of the Southeast Region of the Decision Sciences Institute, in Charleston, SC, February 22-24. (For discussion of paper's content, see title under "Publications".)

Steve Tokarick, presented "Endogenous Tariff Formation in a Computable General Equilibrium Model" to the Interagency Economywide Modeling Working Group on February 10, and at the Eastern Economic Association (EEA) meetings in Baltimore, March 3-5. Steve's paper integrates endogenously-determined tariff policy, based on recent partial equilibrium models of the effects of political pressure groups on tariff formation, with CGE trade policy modeling. To illustrate empirically the effect of these model enhancements, Steve compared the effects of changes in factor endowments in a traditional CGE framework, where tariffs are exogenous, with a CGE model that features endogenous tariff formation.

At the EEA meetings, Caroline Fohlin presented "Value Added Terms of Trade and Sectoral Factor Commitment", co-authored with Sherman Robinson and Gerald Schluter. Her paper explored sectoral value-added prices and sectoral labor and capital shares for evidence that sectoral value-added prices do, in fact, signal incentives for changes in sector factor commitment.

On February 13, Gerald Schluter presented "The Agricultural Sector in Relation to the National Economy" to participants in the 1989 Leadership Development Program at the National Center for Food and Agricultural Policy, Resources for the Future (RFF). His paper was the lead presentation for a two-day intensive study of agriculture's place in the national economy by this group of 19 emerging leaders of the agricultural community. Living up to RFF's advanced billing, the group did not passively copy lecture notes. They engaged Jerry in a lively discussion of the logical basis and reliability of his

estimates of income and employment in the U.S. Food and Fiber System. The Food and Fiber System income and employment will be estimated again next year.

Gerald Schluter and William Edmondson attended the Conference on Input-Output Modeling and Economic Development Applications held by the North Central Rural Development Center in Kansas City, February 28-March 2. Jerry was a member of the conference planning committee and presented "Using I/O for Sectoral Analysis: The National Level."

Briefings and Miscellaneous

On April 10, Sherman Robinson and Stephen Tokarick met with Thomas Moore, a member of the Council of Economic Advisers, and Helen Gale, of the Treasury Department, to discuss agricultural trade liberalization. The discussion focused on a recent report by the Economic Policy Committee of the OECD, which described a world CGE model consisting of a number of country CGE models linked together. The OECD developed such a model for the purpose of analyzing the economic consequences of multilateral and unilateral removal of all agricultural support programs. The OECD report concluded that U.S. farmers will be net losers from multilateral liberalization even though commodity prices rise. Real income for the U.S. increases, however. These results are consistent with many other CGE studies, including USDA-conducted ones.

On April 6, Sherman and Steve briefed Associate Administrator Bob Robinson on the OECD CGE model and report.

Macroeconomics Section

Research

Paul Sundell has been developing a reaction function model of Federal Reserve Board policy that concentrates particularly on the determination of the alternative federal funds rate. The model provides superior in-sample and out-of-sample forecasts when compared to other models of the federal funds rate. Important variables include both previous-quarter real, financial, and inflation data as well as current-quarter Federal Reserve staff forecasts of the change in the unemployment rate. Much of the model's improved performance compared to previous models is attributed to the inclusion of variables related to the international trade balance, exchange rates, domestic default risk in the banking system, and variations over time in the Federal Reserve's vigor in pursuing countercyclical stabilization policy.

Paul's model will aid the agency in its macroeconomic forecasting and in analyzing Federal Reserve policy. The input provided will be used in forecasts of other macroeconomic variables and various agricultural interest rates. While professional qualitative judgement is still very important in forecasting Federal Reserve policy, the model represents a significant improvement over existing reaction function models. An ERS staff paper will be available shortly.

The April, 1989 issue of *Farmline* published a synopsis of Ralph Monaco's outlook for the farm and general economy in its *Perspectives* section. Ralph expects that real GNP growth in 1989 will slow to around 3% percent after a rise of 3.8% in 1988. The economy will likely stay out of recession because the fundamental factors that determine good economic health are all pointing in the direction of continued growth with moderate inflation. Slower growth should reduce upward pressure on interest rates, an important component of farm production costs and, therefore, crucial to the well-being of the farm sector. A good chance still exists that interest rates will be falling in the second half of 1989.

Ralph also reviewed Jagdish Bhagwati's book *Protectionism* in the Spring 1989 issue of *Business Economics*.

Papers Presented and Meetings Attended

Jim Malley and David Bell (U. of Glasgow, Scotland) will be presenting a paper tentatively entitled "International Macroeconomic Policy Co-ordination: A Control Theoretic Approach" at the U. of Warwick, England, Macroeconomic Modelling Bureau meetings in July.

At the Eastern Economic Association meetings in Baltimore, March 3-5, Mark Denbaly presented a paper on his research examining the trading behavior of the Soviet Union. Unlike previous studies, which perform poorly in measuring Soviet grain imports, Mark postulates that Soviet policy is to pass international and domestic market pressures on to their feedgrain consumers -- consumption is not targeted. Once production (by policy and act of nature) and consumption (by precious metal and international grain prices) are determined, imports are determined residually. Mark tests for Soviet policy effects and shows that his procedure explains 97% of the variation of the Soviet feedgrain imports.

At the December meetings of the International Agricultural Trade Research Consortium, John Kitchen presented "Information, Expectations and Foreign Exchange Market Efficiency: Some Implications for Agricultural Commodities and Trade." In the paper, John reviewed evidence on the role of exchange rate volatility in reducing agricultural trade, addressed the issue of optimal hedging strategies and how they are affected by bias in foreign exchange markets, and examined applications of efficient market techniques in analyzing agricultural commodity prices. John is also working on a small empirical model that links the macroeconomy to agriculture. The primary focus of the model is the role that monetary policy plays in the determination of agricultural prices.

Ralph Monaco has been busy giving speeches on the outlook for the overall economy for the next 18 months. In January, he spoke to the Beltwide Cotton Conference in Nashville; in early April, he spoke before the Northeast Dairy Conference in Williamsburg, VA; and in mid-April, he was one of the ERS speakers at the ERS Situation and Outlook Seminar in Memphis.

THE DATA SCENE

ERS Electronic Products

A number of data series produced by the Division are now available on disks or tapes. Those released since the previous issue or mentioned in branch narratives in this issue are listed below. These products can be ordered by calling the ERS-NASS order desk at 1-800-999-6779.

The *Urban-Rural Continuum Code* was developed by Dave Brown (formerly OD) and Fred Hines (FRE) in the 1970's and updated by Calvin Beale (HR) in the 1980's. The codes classify U.S. counties into 10 types based on urban/rural population characteristics and location with respect to urban areas. A number of people have used this scheme as a handy way of looking at grouped county data by degree of county rurality. Calvin has given people access to the code, but has warned that the coding and punching had not been verified.

The preliminary version has now been verified and is accessible by SPSSX, which will make it easier for outside researchers to use the coding scheme. Calvin notes that the changes made during the verification are comparatively minor, so any research conclusions that may have been reached using the preliminary version will still be valid. However, staff members are urged to use only the final version hereafter.

Order #89021, ASCII, one 5.25" disk, cost: \$25.
Contact: Margaret Butler (HR), (202) 786-1534.
(Contributed by Sara Mazie)

The following products are in Lotus 1-2-3, Release 2 format, unless noted:

Rural Public Water Systems (RBG "Publications" section)
Order #89013, two 5.25" disks, cost: \$35.
Contact: Norm Reid, (202) 786-1542.

Rural Development (RBG, Rural Business and Industry "Briefings and Miscellaneous" section)
Order #88013A, four 5.25" disks, cost: \$55;
Order #88013B, one 3.5" disk, cost: \$25.
Contact: Martha Frederick, (202) 786-1547.

Geographic Distribution of Federal Funds, 1985 RBG, Government and Development Section "Publications" section)
Order #88022, EBCDIC, 1 tape, cost: \$130.
Contact: Elliott Dubin, (202) 786-1544.

Cash Receipts (FSFA, Farm Income Estimation "Publications" section)
Order #89014, two 5.25" disks, cost: \$35.
Contact: Bob Williams, (202) 786-1804.

National Financial Summary 1946-87 (NFS); and *State Financial Summary, 1982-87* (SFS) (Both FSFA)
NFS: Order #88010, three 5.25" disks, cost: \$45.
SFS: Order #88012, three 5.25" disks, cost: \$85.
Contact: Linda Farmer, (202) 786-1804.

ARED PEOPLE

Office of the Director


Dave Harrington is ARED's Deputy Director for Agriculture Issues. In this role, he oversees the agriculture-related programs of four branches: Farm Sector Financial Analysis, Finance and Tax, Farm and Rural Economy, and National Economy and History. Prior to assuming this position in 1986, he served as Chief of the Farm and Rural Economy Branch, and Chief of the Farm Sector Economics Branch in the former National Economics Division. David returned to ERS in 1979 to resume a career that started in 1964 with a field assignment in Durham, NH and continued with assignments at Cornell U. and Purdue U. From 1973 to 1979, he worked for Agriculture Canada at Ottawa and Guelph, Ontario, rising from Dairy Policy Analyst to Assistant Director of the Research Division, to Executive Director of CANFARM -- the Canadian national farm management information service. While he was at CANFARM, the agency was cut from the Canadian federal budget and David spearheaded the successful drive to privatize the service -- one of the first privatizations of a government program in North America. For this he received a personal commendation from the Canadian Minister of Agriculture. Other work experience included service in the U.S. Navy and a stint at farming in New Hampshire.

David holds a Ph.D from Purdue U., for which he won the AAEA Best Thesis Award in 1974, an M.S. from U. of New Hampshire, and a B.S. from Cornell U. His work in ERS has centered on forces changing the structure of agriculture, farm financial conditions, research management, and staff work coordination. He has won two Honorable Mentions for Quality of Communication from the AAEA. From ERS he has received an Excellence Award, three Administrator's Special Merit Awards, and four Certificates of Merit and cash awards. Perhaps more important, subordinate employees have won a total of 15 Excellence, Administrator's Special Merit, or AAEA Awards for work done while under his direction.

Farm Sector Financial Analysis

Bob Dubman fulfilled a long-held goal of working for the Government by starting at ERS in 1986. He received an M.A. in Economics from the U. of Maryland, and a Ph.D. in Agricultural Economics from the U. of Georgia. His thesis on *Risk in Peanut Marketing* under Professor Bill Miller (who is on sabbatical at 1301 New York Ave. until August, 1989) was given the 1987 Applebaum Scholarship Award. Previous experience at the Congressional Budget Office and the American Enterprise Institute have helped his research. Recently



Bob Dubman

Bob has been concentrating on the series of *Financial Performance of Specialized Farm Bulletins*. Econometrics and computer work is very gratifying for him.

Following the philosophy embodied in the quote: "Washington is a freebie city, once you pay for necessities" has led Bob to extensive lunch-time walks around downtown Washington. Raised in nearby Baltimore,

he has been exploring Washington, D.C. for most of his life. Since his wife Belkis, also an Agricultural Economist, is from Venezuela, Bob is becoming fluent in Spanish. She and their 1 year-old daughter, Hannah, are the center of his activities.

Finance and Tax Branch


Merritt Hughes has been an economist in the Agricultural Finance Section since September, 1987. Her research is focused on financial institutions and credit markets. When she first joined ERS much of her time was spent keeping track of the evolution of financial stress at the Farm Credit System. As the System has begun to creep out from under its problems, Merritt has been able to turn more attention to modeling loanable funds markets within general equilibrium economy models, with the goal of developing a context in which to analyse the effect of potential credit policies on rural areas and/or farms.

Apart from a few months in Bottineau, ND, Merritt has sadly never lived in a rural area, though she may soon in a valiant attempt to find affordable housing. She was born in Roanoke, VA, but grew up in a number of locales as her family moved

several times. She earned a M.A. in Agricultural Economics at the U. of Massachusetts, Amherst. One reason Merritt currently resides in Alexandria is that the Mount Vernon bike trail passes close to her home. She is an enthusiast, frequently biking to work. When she isn't pedaling, she also likes to wind surf.

Farm and Rural Economy Branch

Judy Sommer joined ERS in January, 1981, the day before newly-inaugurated President Reagan declared a freeze on Federal Government hiring. Stationed at the National Agricultural Library in Beltsville, MD, Judy worked as a Technical Information Specialist indexing agricultural economics literature for the AG-ECON subfile of the AGRICOLA bibliographic

database. Two years later she transferred to an Economist position with the Economic Indicators and Statistics Branch (now the Farm Sector Financial Analysis Branch) to work on the balance sheet of the farm sector. Leaving shortly thereafter to attend graduate school, she returned to ERS in September, 1985 to the Agriculture and Community Linkages Section where she currently works.



Judy Sommer

Judy's most recent publication (with Fred Hines) is *The U.S. Farm Sector: How Agricultural Exports are Shaping Rural Economies in the 1980's*, a study that focuses on how changes in agricultural exports affected nonmetro counties producing "export-oriented" commodities. She was part of the team effort last fall to write the drought report to Congress, using input/output modeling to assess the effects of the 1988 drought on the farm sector and rural communities. Her current work involves combining farm structure, income, and employment data to delineate homogeneous farming subregions for use in analyzing the farm sector and rural communities.

Originally from Chicago, Judy came to the D.C. area after graduating from Cornell U with a B.A. in economics. She has a M.A. in economics from the U. of Maryland, College Park. She shares an empty nest in Chevy Chase, MD, with her husband, awaiting visits from three sons who reside there temporarily during college breaks. Her favorite activities are greenhouse and outdoor gardening, long walks, and travel.

Rural Business and Government Branch

Rick Reeder is an economist in the Government and Development Policy Section. Since joining ERS in 1980, his research has focused on rural government fiscal stress. His ERS research has also examined tax reform, the impact of declining Federal aid on local governments, the geographic distribution of federal funds, targeting aid to distressed rural communities, and the fiscal characteristics of retirement coun-

ties. Rick has also handled several cooperative agreements and served on the editorial board of *Rural Development Perspectives*.



Rick Reeder

A native of the District of Columbia, Rick also hails from Cleveland, OH, and Coral Gables, FL. He did his undergraduate work at Emory U. and graduate work at Purdue U. He started work in 1976 as an intern with Tax and Finance section of the Advisory Commission on Inter-

governmental Relations (ACIR). While at ACIR, he researched various issues relating to State and local government finances, including the fiscal implications of cigarette smuggling, State and local finances and the business cycle, Federal regulation of State and local retirement systems, and Federal aid to distressed urban areas.

Rick is a long-suffering Cleveland Indians fan and a recently-suffering Miami Dolphins fan. Other outside interests include traveling to foreign countries, playing a synthesizer, and lounging at the local swimming pool.

Human Resources Branch

Daniel Smith joined ERS in February, 1989 as an intern, working part time in the Rural Labor Markets Section. He's currently a student at Gallaudet U., the only liberal arts college for the Deaf. He will get his B.A. in economics in May, 1989, and is planning to live in Greenbelt, MD area after graduation.



Daniel Smith

He is working primarily on an education and local growth research project with **Molly Killian** and **Tim Parker**. He enjoys learning new things and meeting new people, especially other economists. He feels that "it has been a pleasure...to work with ERS."

Daniel grew up in Kansas City, KS in a deaf family. He graduated with honors from Kansas School for the Deaf in Olathe. He has been working in para-professional programs for 3 1/2 years while studying at Gallaudet. During high school he worked for two summers as a clerk-typist for the Social Security Administration in Kansas City, MO. He maintains his goal of working in the near future for the U.S. government in D.C., where he knows there is good opportunities for economists.

Dan will never forget the remarkable experience of riding a bicycle across America. He and his best friend can no longer take America for granted after pedalling 4,200 miles from Yorktown, VA to Victoria, British Columbia, Canada, in 70 days last summer. They both came to appreciate the different cultures making up the United States. If anyone has questions about biking, please feel free to contact him.

National Economy and History Branch

Bill Edmondson, an economist with the National Aggregate Analysis Section joined ERS in 1979 in the Food and Agricultural Policy Branch of the National Economics Division. He has come to his current division and branch after being "reorganized" several times.

Bill works primarily with input-output models. Using models, he composes several annual tables such as the Food and

Fiber employment and income estimates, published in the *Farm Sector Review* and the *Statistical Abstract of the United States*, and the total employment and business activity related to agricultural exports published in the *FATUS* series. Bill also supplies the Bureau of the Economic Analysis with the agricultural transactions that they include in their National input-output tables. Most recently, Bill has been analyzing the performance of several different input-output models for regionalizing the effect of a national-level economic shock. Other recent work has involved using an input-out-



Bill Edmondson

put framework to examine the net tax effects to the economy of an increase in subsidies on high- or added-value exports.

Bill grew up in Trenton, NJ before moving South in the early 70's to attend Howard U. Bill then joined the Bureau of Labor Statistics to work on the Consumer Price Index during those heady days of rampant inflation. Besides working for ERS, Bill is currently continuing post-graduate work at the U. of Maryland and finally giving up bachelorhood, after thirty five years, this May.

PERSONNEL

Farm Sector Financial Analysis

Ken Mathews became a member of the Farm Cost and Returns Section in January. He is currently engaged in the development and analysis of the farm level budget generator for estimating costs of production and economies of size.



Ken Mathews

Agricultural Economics at Texas Tech U. in 1982, and then went on to North Carolina State U. for a Ph.D. in Economics in 1989.

Ken and his wife Martha, native Texans, are enjoying the D.C. area. Having just finished graduate school, Ken isn't sure

what his hobbies are at this point, but he enjoys outdoor activities and reading about them. He also plans to enjoy his family for a change. Martha is currently spending her time getting the family settled into their home in Silver Spring and keeping up with sons Seth, 11, and James, 7.

Elizabeth Nielsen will be leaving the Farm Costs and Returns Section to accompany her husband to his new post with USDA's Foreign Agricultural Service in Paris. Liz has contributed much to the branch's financial conditions work during the past two years and is currently completing a report on limited-resource farmers. Bon voyage, Liz.

Robert Dismuskes has been appointed Secretary of the National Standards Cost of Production Review Board, succeeding **Diane Bertelsen** of the Economic Indicators Research and Forecast Section. The Board was established by the 1981 Farm Bill to advise USDA on its cost of production program. It meets twice per year in Washington.

Finance and Tax Branch

Doug Duncan joined the Agricultural Finance Section in January after completing his Ph.D. at Texas A&M U. His research interests include commercial bank management as well as the broader areas of financial institutions and capital markets.

Doug was raised on a Minnesota dairy "family farm" but, being particularly inept at inter-species communication, he left the herd and sought other employment. An Associate of Arts degree in music followed by a stint in the U.S. Navy as an air traffic controller naturally led

to the pursuit of an agricultural economics degree. Having successfully removed the term "permanent student" from his father's vocabulary, Doug looks forward to a productive tenure with ERS.



Doug Duncan

Not to be outdone by the new editor of the ARED Newsletter (see previous issue), Doug married a choir director named Debra and they're still making music.

(Editor's note: more like Mozart than Schoenberg, we hope.) Jeremy, 11, and Alexander, 8, will likely add another voice and drums respectively to the family chorus. Outside interests include being outside--baseball (Twins and Astros), camping, fishing, canoeing--, singing, and reading.

Paula Dyer joined the Rural Finance and Tax Section as section secretary in March.

Cliff Rossi received a special service award for outstanding performance in research on rural finance and tax issues.

Steve Koenig joined the Editorial Board of *Rural Development Perspectives* in March, replacing Greg Gajewski.

Greg Gajewski resigned as leader of the Agricultural Lending Institutions Project on January 28 to become editor of USDA's *Agricultural Outlook*.

In February, Joan Redd resigned her position as secretary for the Rural Finance and Tax Section to take a position in the personnel office at the Small Business Administration.

Human Resources Branch

Carolyn Rogers, a demographer, joined the Population Section in late January, 1989. She was attracted to ERS by the close match between her research interests and background and Linda Swanson's ideas for the section's research agenda.



Carolyn Rogers

While there, she designed the June fertility supplement to the *Current Population Survey*, produced the annual *Fertility of American Women* report, and published numerous articles on birth expectations and child care.

Carolyn received a B.A. in sociology from Stetson U. and an M.A. in sociology/demography from Brown U. Her current research focuses on the family structure and household composition of nonmetro and rural areas. She has started work on a project comparing the economic well-being of nonmetro and metro children by various demographic and social characteristics. A second project underway examines policy issues and evaluates data sets for studying the rural/nonmetro elderly.



Tawanta Brinson

Tawanta Brinson came to ERS as the secretary for the Income and Well-being Section from the Federal Aviation Administration in January, 1989. In addition to her experience, she obtained a Clerical Studies Certificate from ITT Career Training Center. Angela Brinson (F&T) is her first cousin.

Tawanta was born in St. Petersburg, FL but grew up in Washington. She graduated

from High Point H.S. in Beltsville, MD. She likes residing in the Springhill Lake section of Greenbelt, MD because "it's so quiet." Most of her time is spent with her 1 year-old baby girl, Talisa. She also enjoys reading, walking, and window shopping.

Linda Ghelfi recently became chair of the Promotions, Hiring and Awards Subcommittee on the ERS Equal Opportunity Advisory Committee. In cooperation with Walt Gardner (ATAD), Linda has planned a study of promotions and awards in the Agency using personnel data.

National Economy and History Branch

Caroline Fohlin came to ERS last July to spend a year in the National Aggregate Analysis Section. As a junior economist, her main job has been to provide support in the development of a computable general equilibrium modeling capability, a project led by Sherman Robinson.

In addition, Caroline managed to find time to co-author a paper with Sherman and Gerald Schluter, which she presented at the recent Eastern Economic Association meetings. She is leaving June 2 to spend two months in Indonesia, Malaysia, and Thailand. This autumn, she will begin the Ph.D. program in economics at U. of California, Berkeley.



Caroline Fohlin

EDITOR'S NOTES

Appreciation

As do many members of the Executive Branch upon taking office in this town, I want my first official comment in the newsletter to be a word of appreciation to my predecessor, Wyn Francis. He provided a good deal of explanation about his procedures and was generous in discussing ideas about the newsletter. His biggest contribution to my well-being, though, was leaving the newsletter such that it can continue in the same general format. Some changes will certainly occur. For instance, I don't have Wyn's wry -- or is it awry -- sense of humor. However, broad alterations are not needed; rather, I think that continuity will be valuable at this point.

I think that Wyn made beneficial changes in the newsletter during his tenure, particularly in its appearance and structure. I don't mean to imply that the newsletter was in bad shape before, but developments in publication technology have made it necessary to pay more attention to these aspects. While packaging does not make the product, no product serves its function on the shelf. I think that the newsletter in its present

form advances that precious commodity our division produces, viz., knowledge, in a way that engages readers.

As Wyn pointed out in his last notes, Carolyn Riley has also contributed greatly to the improvements in the newsletter's appearance. I am certainly grateful for her invaluable assistance in laying out this issue.

I am also thankful for the material that divisions members contributed for this issue. Without it, of course, nothing happens. I too find the work that division members are doing fascinating and have difficulty editing out anything.

Finally, I thank the people of my section (FSFA/FIES) for their support. Our section secretary, LaShawn Parker, didn't expect that she too was volunteering to work on the newsletter, but she responded conscientiously whenever I asked her to put hard copy on disk. Flossie Dingle consented to that thankless task of applying around 600 mailing labels. Linda Farmer generously shared our room's sole computer, and Pat Sullivan (F&T) helped a great deal by locating an "extra" computer and trusting that its matriculation would not be permanent.

I've got to get this off to the printer now (finally!). Watch for the reprise performance in September, in which you all will again play a large role.

Contact the Editor

If you have comments and/or questions, want to make address changes/additions, or offer material for the *ARED Newsletter*, please contact Chris McGath at (202) 786-1804 or at the address on the front inside cover.

LIST OF PUBLICATIONS

Development and Use of Financial Ratios for the Evaluation of Farm Businesses, p. 4.

Working in ERS: A Guide for Present and Prospective Employees of the Economic Research Service, p. 6.

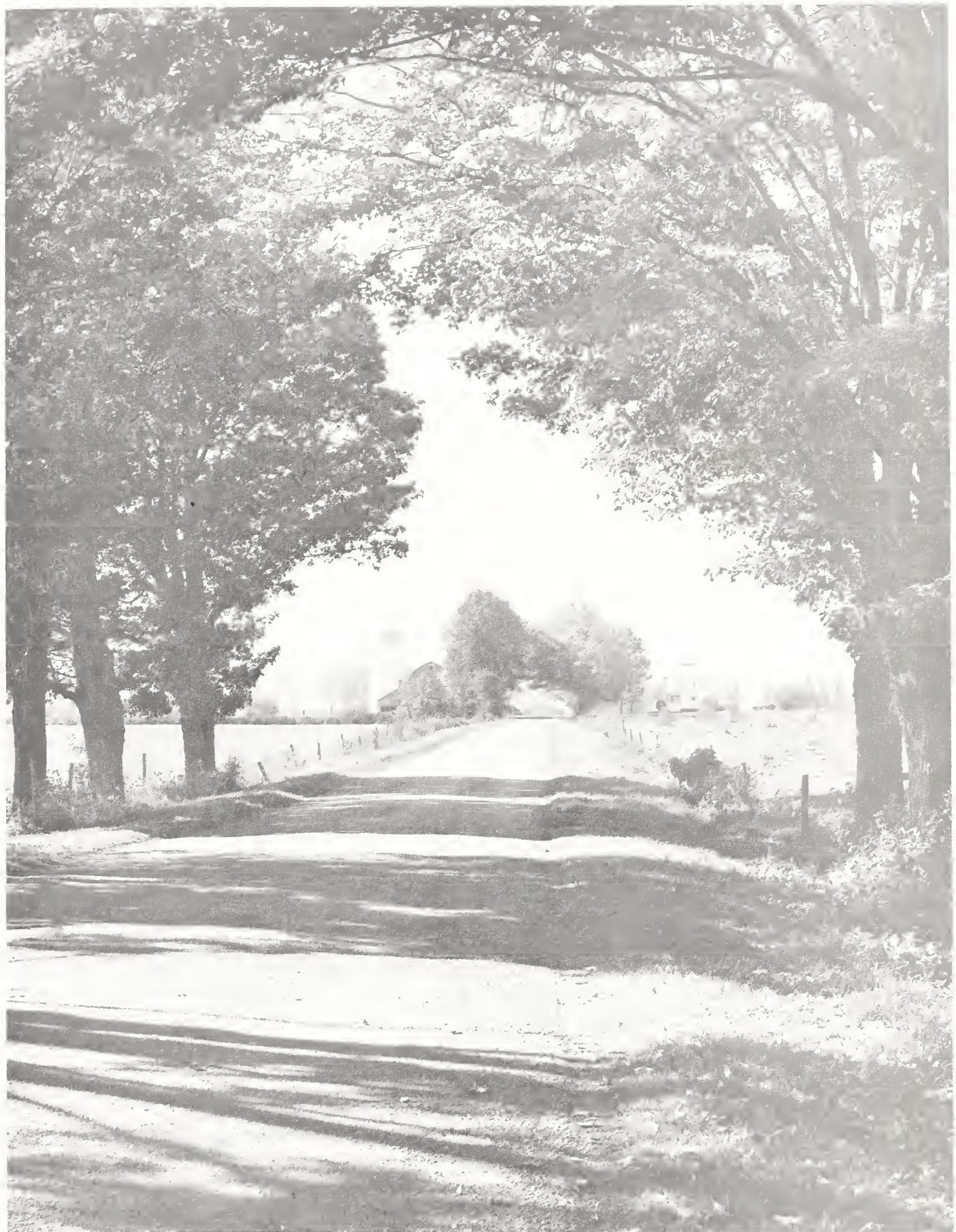
New Alliances for Rural America, p. 6.

Agricultural Income and Finance Situation and Outlook, pp. 7, 13.

Agricultural Finance Situation and Outlook, p. 7.

Rural Economic Development in the 1980's, p. 8.
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Economic Indicators of the Farm Sector, pp. 9, 11.
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The Farm Sector Review, 1987, p. 11.
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The Farm Entrepreneurial Population, 1987, p. 24.
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Drought in the United States: A Short History, p. 26.
History of Federal Drought Relief Programs, p. 26.
Data Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix, p. 27.

Right: Maple Grove Road near Ellicottville, NY.



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